

CITY OF FLORENCE, KENTUCKY

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Year Ended June 30, 2013

Prepared by:
Linda J. Chapman
Finance Director

CITY OF FLORENCE, KENTUCKY
COMPREHENSIVE ANNUAL FINANCIAL REPORT

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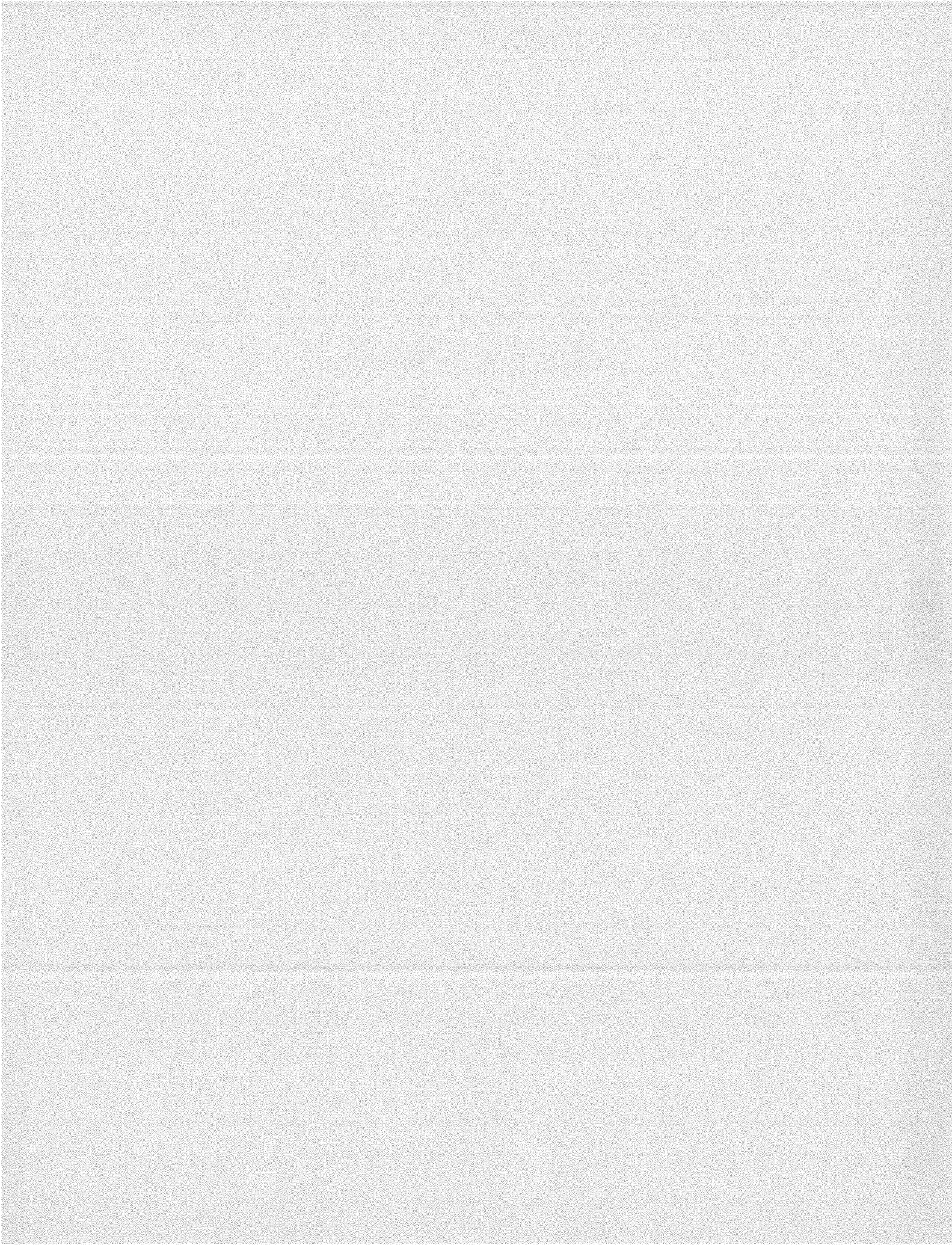
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INTRODUCTORY SECTION



OFFICE OF THE CITY COORDINATOR

September 19, 2013

To the Mayor, City Council and Citizens of the City of Florence, Kentucky:

State law requires that all general-purpose local governments publish within seven months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Florence for the fiscal year ended June 30, 2013.

This report consists of management's representations concerning the finances of the City of Florence. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Florence has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Florence's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Florence's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Florence's financial statements have been audited by Rankin, Rankin and Company, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Florence for the fiscal year ended June 30, 2013, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Florence's financial statements for the fiscal year ended June 30, 2013, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Florence's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Florence, founded in 1830, is located in the northern most part of the state, situated in Boone County and is part of the Northern Kentucky Region, which ranks as one of the top growth areas in Kentucky. The City of Florence currently occupies a land area of 10.6 square miles and serves an estimated population of 31,088. The City of Florence is empowered to levy numerous sources of revenue including its major sources payroll tax, business license tax, insurance premiums tax and a property tax on both real and personal properties. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the governing body.

The City of Florence operates under the Mayor/Council form of government. Legislative authority is vested in the City Council, consisting of six City Council members. The Mayor is the executive authority. The City Council is responsible, among other things for passing ordinances, adopting the budget and appointing members to various boards. The Mayor approves the hiring of all full time employees. The City Coordinator reports directly to the Mayor and is responsible for carrying out policies and ordinances of the City Council and is responsible for the development of short and long range planning, capital improvement programs and running the day-to-day operations of the city. The City Council is elected on a non-partisan basis. The Mayor serves based upon a 4 year term and the City Council serve based upon a 2 year term. The next election for the Office of Mayor will be held in 2014 with the Mayor to take office January 1, 2015. The next election for City Council will be held in 2014 with the Council to take office on January 1, 2015.

The City of Florence provides a full range of services, full time professional police force and full time professional fire protection; advanced life support medic services; street maintenance and improvement; water and sewer services; storm water collection; a full range of recreational facilities and activities; cultural events; planning and zoning and code enforcement.

The annual budget serves as the foundation for the City of Florence's financial planning and control. All departments of the City of Florence are required to submit requests for appropriation to the City Coordinator. The City Coordinator uses these requests as the starting point for developing a proposed budget. The City Coordinator then presents this proposed budget to the Mayor for review. The Mayor and City Coordinator then present the budget to the City Council for review. Then, City Council budget work sessions are held on the proposed budget. The final budget is adopted by July 1. The appropriated budget is prepared by fund and department (e.g., police). Expenditures may not legally exceed budgeted appropriations at the departmental level. Any revisions to the budget that would alter total revenues and department expenditures of any fund must be approved by the City Council.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Florence operates.

Local economy. Florence's location is a major factor in allowing it to become an economic force in the Greater Cincinnati/Northern Kentucky region. Also, the consistent and persistent effort put forth by Florence's elected and appointed officials and other community leaders over the past twenty years has positioned the City very well. However, the City is not immune from the national economic realities and that brings with it continuing unknowns for the current fiscal year

The City has continued to experience some growth and development during the current fiscal year. The City's focus on financial management and economic development over the past decade has established the City as a center of commerce in the Northern Kentucky region. In 2012 and 2013, total private capital investments and job growth in the City have continued. The city has engaged a firm named Retail Strategies. They will help the City to identify additional opportunities to recruit retail concepts that expand the retail landscape of the City. They will also assist the City in honing in on potential redevelopment opportunities with existing commercial properties in the City.

The redevelopment of Mall Road remains an important economic development priority for the City. Kroger has started a \$10 million investment to develop a new Kroger Marketplace store. Another retail project named the Houston Road Shoppes has been started as well and has attracted restaurants completely new to the Northern Kentucky area.

There were several state transportation projects that were completed during the year that are all of great benefit to the residents, visitors and businesses of the City. In addition, the City is moving forward with additional enhancements to Mall Road. The City is proposing and working with the State to construct a frontage road that will link up with Connector Drive. A new entrance ramp from mall Road to southbound I-75 is in the Kentucky Transportation Cabinet's six-year road plan proposed by the Governor and adopted by the legislature.

The City has also completed numerous sidewalk, street improvements, storm water, sanitary sewer and water improvements throughout areas of the City. In addition, the City has started the construction of a new Fire Substation on Woodspoint Drive.

Long-term financial planning. The city has implemented a three-year budget plan. The three-year budget plan serves as a basis for a rolling three-year strategic plan for the City. This plan will carry out the City's vision as adopted by the City Council. Long-term future sustainability is the primary focus of the budget plan. The City implemented increases in the water and sewer rates for the operations and maintenance and capital needs to maintain and improve the lines. There are built in annual increases that take effect every April 1st. The last increase was in 2013 and future evaluations will be an ongoing process.

The City is continuing to explore the possibility of developing new parks and adding amenities to existing parks. After the completion of the projects mentioned in the paragraphs above, there are no large construction projects planned.

Relevant Financial Policies

The City of Florence has adopted a comprehensive set of financial policies addressing various areas of operations such as revenue collection, banking services, investment policies, debt management, budget management and fund balance reserves.

The unassigned fund balance in the general fund is 105.43% of total general fund revenues and falls within policy guidelines. The City strives to maintain at least 25 percent of total general fund revenues so as to reduce amounts that may need to be borrowed in the future.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Florence for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2012. This was the eighth consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable program requirements.

A Certificate of Achievement is valid for a period of one year only. However, we believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this comprehensive annual financial report on a timely basis was made possible by the dedicated service of the entire staff of the departments of Finance and Administration. Each member of both departments has my sincere appreciation for the contribution made in the preparation of this report. Credit must also be given to the Mayor and Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Florence's finances.

Respectfully submitted,

A handwritten signature in black ink, reading "Richard J. Lunnemann". The signature is written in a cursive, flowing style.

Richard J. Lunnemann
City Coordinator

CITY OF FLORENCE, KENTUCKY

LIST OF PRINCIPAL OFFICIALS

June 30, 2013

Mayor

Diane E. Whalen

Council Members

Larry Brown

Mel D. Carroll

Jason Kelly Huff

Julie A. Metzger-Aubuchon

David A. Osborne

Gary Winn

Staff

City Coordinator - Richard J. Lunnemann

City Clerk - Joe A. Christofield

Finance Director - Linda J. Chapman

City Attorney - Hugh O. Skees

City Engineer - William R. Viox

Director of Public Services - Robert W. Townsend

Chief of Police - Thomas E. Szurlinski

ABC Administrator - Karen Releford

Fire/E.M.S. Chief - Marc A. Muench



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

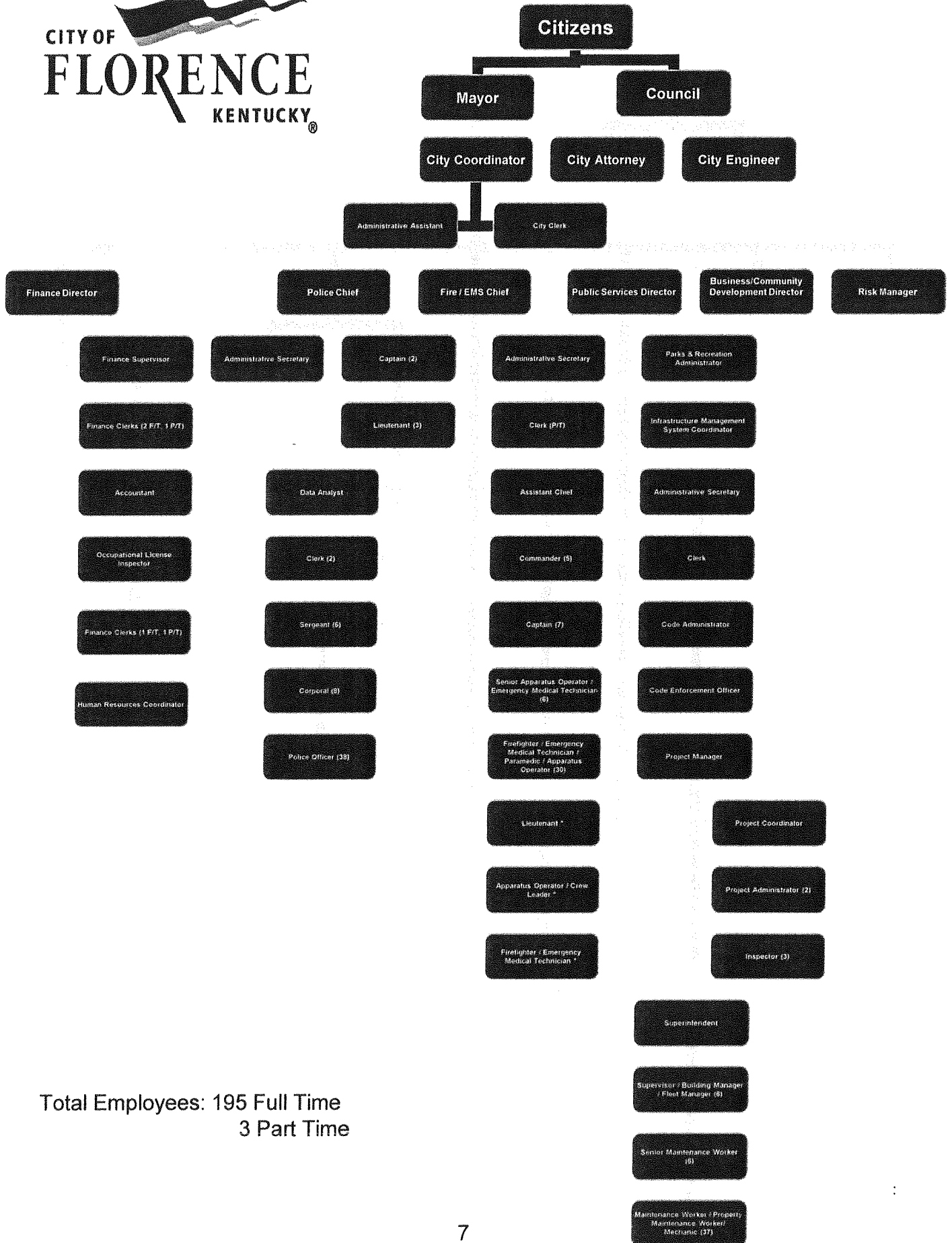
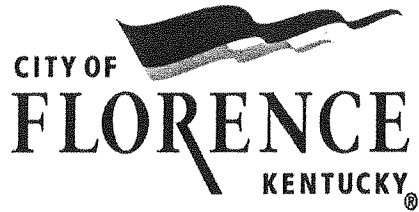
Presented to

**City of Florence
Kentucky**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

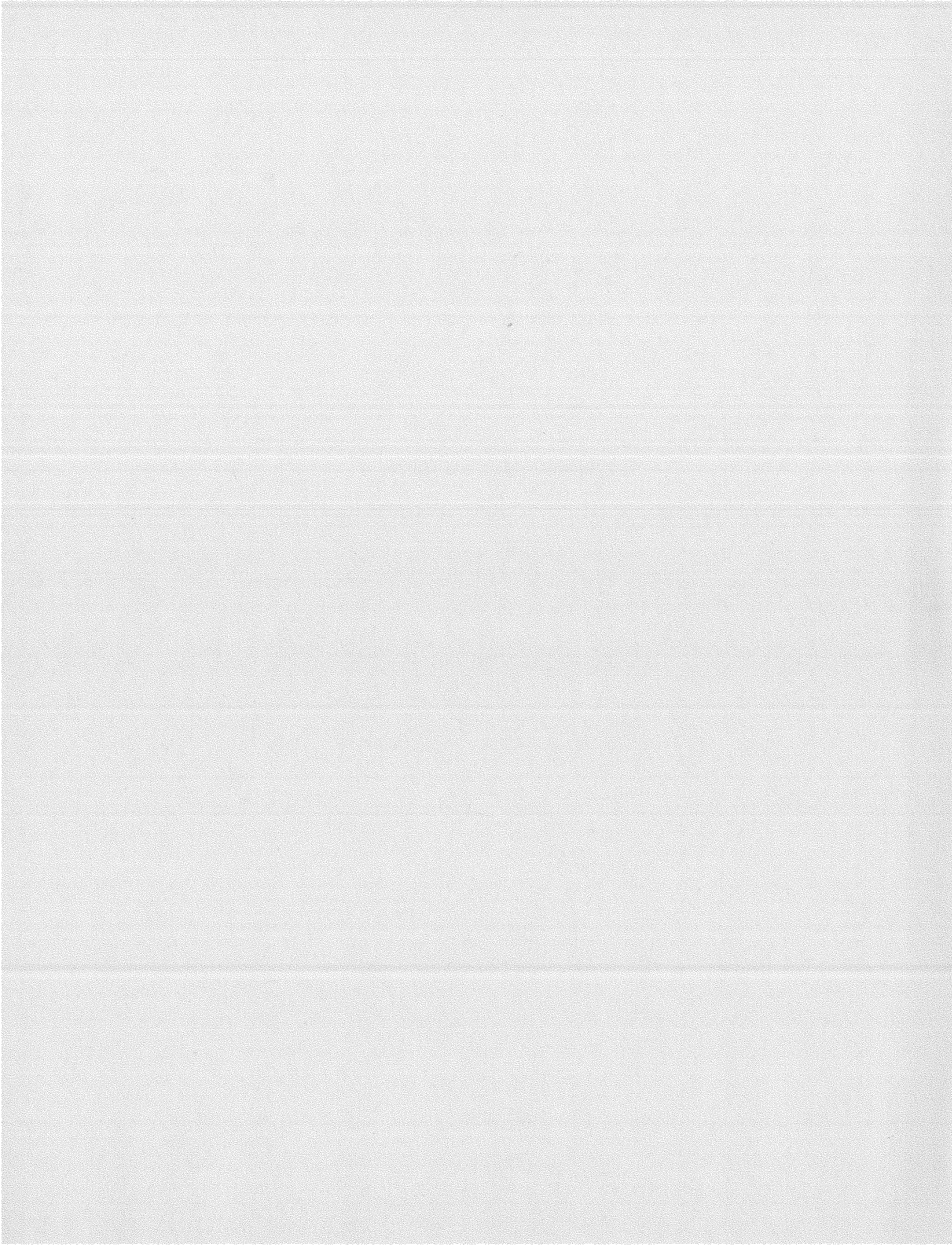
Executive Director/CEO



Total Employees: 195 Full Time
3 Part Time

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FINANCIAL SECTION





INDEPENDENT AUDITOR'S REPORT

Honorable Diane E. Whalen, Mayor
Members of City Council
City of Florence, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Florence, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Florence, Kentucky, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 13 and 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Florence, Kentucky's basic financial statements. The introductory section, combining and individual budget and actual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual budget and actual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual budget and actual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2013, on our consideration of the City of Florence, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* considering City of Florence, Kentucky's internal control over financial reporting and compliance.

RANKIN, RANKIN & COMPANY

A handwritten signature in cursive script that reads "Rankin, Rankin & Company".

**Ft. Wright, Kentucky
September 10, 2013**

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As management of the City of Florence, we offer readers of the city's financial statements this narrative overview and analysis of the financial activities of the City of Florence, Kentucky for the year ended June 30, 2013. We encourage readers to consider the information in conjunction with the letter of transmittal, which can be found on pages 1-4 in this report.

Financial Highlights

The assets of the City exceeded its liabilities at the close of the most recent year by \$158,034,429 (net position). Of this amount, \$71,355,391 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.

As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$50,652,897. This was an increase of \$8,059,621 comparison to the prior year. The increase was mainly the result of the City's general operating fund.

At the end of the current fiscal year, unassigned fund balance for the general fund was \$34,929,248, or 128.34% of total general fund expenditures, transfers and other expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The basic financial statements encompass three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements. These two statements report the City's net assets and changes in them.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets, liabilities and deferred inflows/outflows of resources, with the difference being reported as net position. Over time, the increases and decreases in net position may serve as a useful indicator of whether the City's financial position is improving or deteriorating. Other nonfinancial factors such as changes in the City's property tax base and the condition of the City's infrastructure will also assist in assessing the overall financial health of the City.

The statement of activities presents how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the

underlying event giving rise to the change occurs, regardless of the timing of cash flows. As a result, revenues and expenses are reported in this statement for some items that will only result in cash flows for future fiscal periods (e.g., uncollected revenue and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes, license fees and intergovernmental activities which are considered governmental activities, from those functions that are intended to cover all or a significant portion of their costs through user fees and charges which are considered business-type activities. The governmental activities include most of the City's basic services. These include but are not limited to police, fire, street maintenance, parks and recreation, and general administration. The business-type activities include the City's water and sewer service operations and the golf course operations.

The government-wide financial statements include not only the City of Florence itself (known as the primary government), but also the City of Florence Municipal Properties Corporation for which the City is financially accountable.

The government-wide financial statements can be found on pages 24 and 25 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. Some funds are required to be established by State law. However, the City Council establishes many other funds with specific sources of revenue to help it control and manage money for particular purposes (i.e., Infrastructure Fund and Aquatic Center Fund) or to show that it is meeting legal responsibilities for grant and restricted funds (i.e., Municipal Aid Fund and Asset Forfeiture Fund). All funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. The City's two kinds of funds, governmental and proprietary, use different accounting approaches.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Florence maintains four individual governmental funds. Information is presented separately in the governmental balance sheet and in the statement of revenues, expenditures and changes in fund balances for the general fund which is considered to be a major fund. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental financial statements can be found on pages 26-28 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer service operations and the golf course operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its health and dental costs.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information on the water and sewer service and the golf course operations, both of which are considered major funds of the City of Florence. Since there is only one internal service fund, separate information is provided.

The basic proprietary fund financial statements can be found on pages 29-31 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 33-52 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. The budgetary comparison schedules and combining statements and schedules can be found on pages 53-60 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Florence, assets and deferred outflows of resources exceeded liabilities by \$158,034,429 at the close of the most recent year.

The largest portion of the City's net position (54.69 percent) reflects its investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt to finance those assets that is still outstanding. The City uses these capital assets to

provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the funds needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

For the years ended June 30, 2013 and 2012 net position changed as follows (amounts in thousands):

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 64,975	\$ 55,954	\$ 8,799	\$ 8,859	\$ 73,774	\$ 64,813
Capital assets, net	80,511	80,750	30,519	30,723	111,030	111,473
Total assets	<u>145,486</u>	<u>136,704</u>	<u>39,318</u>	<u>39,582</u>	<u>184,804</u>	<u>176,286</u>
Total deferred outflows of resources	518	549	434	-	952	549
Other liabilities	2,828	1,595	1,459	1,571	4,287	3,166
Long-term liabilities	20,134	22,875	3,301	3,825	23,435	26,700
Total liabilities	<u>22,962</u>	<u>24,470</u>	<u>4,760</u>	<u>5,396</u>	<u>27,722</u>	<u>29,866</u>
Net position:						
Invested in capital assets, net of debt	59,736	59,317	26,694	26,659	86,430	85,976
Restricted	-	-	248	248	248	248
Unrestricted	63,305	53,466	8,050	7,279	71,355	60,745
Total net position	<u>\$ 123,041</u>	<u>\$ 112,783</u>	<u>\$ 34,992</u>	<u>\$ 34,186</u>	<u>\$ 158,033</u>	<u>\$ 146,969</u>

An additional portion of the City's net position (1 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$71,355,391) may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City was able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Net position of the City increased 7.53% or \$11.06 million during the current fiscal year. The increase was mainly attributed to the growth in the revenue line items outpacing the growth in operating and contractual expenses. In addition, the City spent less on capital expenditures for City projects during fiscal year 2013.

Changes in Net Position

	Governmental Activities		Business-type Activities	
	2013	2012	2013	2012
Revenues:				
Program revenues:				
Charges for services	\$ 4,584,681	\$ 4,663,930	\$ 9,567,303	\$ 9,429,015
Operating grants and contributions	2,131,843	546,413	-	-
Capital grants	733,782	5,027,084	-	-
General revenues:				
Taxes	28,908,602	28,837,767	-	-
Other	544,333	450,692	22,544	38,097
Total revenues	<u>36,903,241</u>	<u>39,525,886</u>	<u>9,589,847</u>	<u>9,467,112</u>
Expenses:				
Administration	4,034,351	3,298,333	-	-
Police	7,303,391	6,969,522	-	-
Fire	6,135,505	6,430,725	-	-
Public services	8,316,012	8,226,075	-	-
Interest on long-term debt	755,071	1,497,431	198,661	225,468
Loss on disposal of assets	-	-	-	-
Water and sewer services	-	-	7,493,012	7,635,066
Golf Course	-	-	1,191,661	1,169,102
Total expenses	<u>26,544,330</u>	<u>26,422,086</u>	<u>8,883,334</u>	<u>9,029,636</u>
Increase in net position before transfers and other expenses	10,358,911	13,103,800	706,513	437,476
Transfers	(100,000)	(100,000)	100,000	100,000
Increase in net position	10,258,911	13,003,800	806,513	537,476
Net position - July 1	112,782,911	99,779,111	34,186,094	33,648,618
Net position - June 30	<u>\$ 123,041,822</u>	<u>\$ 112,782,911</u>	<u>\$ 34,992,607</u>	<u>\$ 34,186,094</u>

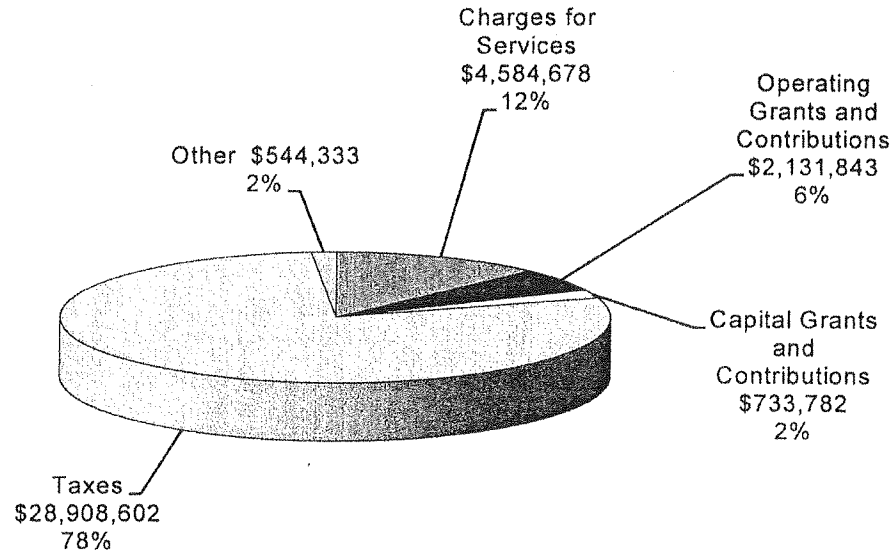
Governmental activities. Governmental activities increased the City's net position by \$10.3 million, thereby accounting for 92.71% of the total growth in net position. Key elements of this growth are as follows:

- Taxes increased slightly over fiscal year 2012. The payroll tax position increased by \$834,911 during 2012 as a result of slightly improved economic conditions. However, in 2014, the tax rebound leveled off and payroll tax decreased by \$40,731. Occupational license fees increased by \$77,718 as a result of the improving local economy. Another revenue increasing as a result of the improved economy was the insurance premium tax. It increased by \$347,846. The City's property tax revenues remained consistent with that of the prior year as a result of stable assessed values and not raising of the tax rate

for the fourth straight year in a row. Capital grant revenue decreased by \$4,293,302 as a result of the Mall Road project coming to a close. However, operating grant revenue increased by \$1,585,430.

- There was a slight increase of \$122,244 for governmental activities due to the increase in wages and benefit costs.

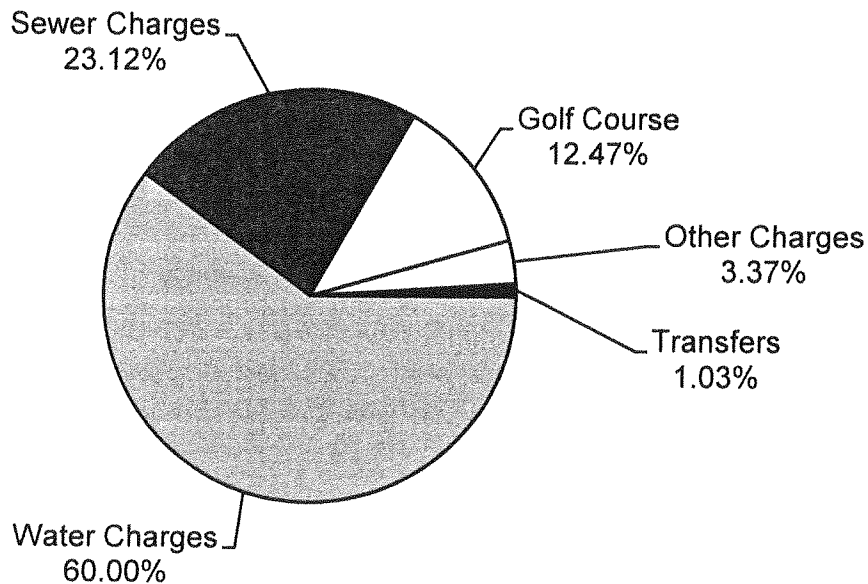
Revenues by Source - Governmental Type Activities



Business-type activities. Business-type activities increased the City's net position by \$806,513, accounting for 7.29 percent of the total growth in the government's net position. Key elements of this increase are as follows:

- In reviewing the net (expense)/revenue, the water and sewer sales and service function showed net income for the year of \$809,401. The income was attributable to operations due to a four percent increase in rates implemented on April 1, 2012. In addition, expenses decreased by \$142,054 due to the decommissioning of multiple pump stations.
- The golf course fund showed a net loss for the year of \$2,888 as a result of operations. The loss was the result of a decrease in revenues of \$44,146 due to the unseasonably hot and humid summer. Operating expenses increased by \$22,559 due to yearly cost increases. In addition, an operating transfer was made during the year as a result of the ongoing debt service commitments.

Revenues by Source - Business Type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year.

At the end of the current fiscal year, the City's government funds reported combined ending fund balances of \$50,652,897, an increase of \$8,059,621 in comparison with the prior year. Approximately 68.95 percent of this total amount constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is classified as nonspendable, committed to or assigned to indicate that it is not available for new spending because of constraints that have been placed on the use of these resources for specific purposes either internally or externally.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$34,929,248 while total fund balance was \$46,009,442. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 128.34 percent of total general fund expenditures and transfers, while total fund balance represents 169.06 percent of that same amount.

The fund balance of the City's general fund increased by \$5,916,614 during the current fiscal year. Key factors in this growth are as follows:

- Cost cutting measures enacted to offset consistent revenues. Several full-time personnel positions have continued to not be filled.
- Business occupational license fees and insurance premium tax made a recovery and produced results stronger than originally anticipated
- The City enacted payroll and insurance premium tax increases on July 1, 2007 that were part of a long-range plan. This enactment has continued to enable the City to build reserves.
- Several capital improvement projects amounting to approximately \$3,590,000 were scheduled to be completed by June 30 and were delayed until FY 2014.

The municipal aid road/LGEA fund has a total fund balance of \$670,556, all of which is restricted for street improvements and snow removal expenditures. The net increase in fund balance during the year was the result of snow removal costs being lower than originally projected. The asset forfeiture fund had an increase in fund balance of \$92,445 as a result of the amount of seized forfeitures received during the year. The aquatic center fund had a fund balance decrease of \$49,881 as a result of a cool and rainy May and June that affected attendance.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water and sewer service fund at the end of the year amounted to \$6,983,351 and those for the golf course operations amounted to \$1,066,718. The growth in net position for the water and sewer fund was \$809,401 and the net loss in the golf course fund was \$2,888. Other factors concerning these two funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the general fund budget two times. The budget amendments were to adjust the beginning fund balance to actual and to increase/decrease revenues and expenditures to more closely reflect the anticipated actual revenues and expenditures for the year based on prior year results and current year developments.

In particular, the first amendment increased the grant revenue line items for amounts carried over from the 2012 budget for projects that were not completed. Capital line items were adjusted to include additional carryover amounts from the 2012 budget for projects that were started but not completed by June 30, 2012. In addition, changes were made to all beginning fund balance amounts to reflect the ending balances from the prior June 30.

The second amendment basically adjusted some of the General Fund revenues to more closely reflect anticipated revised projections. In addition, the amendment deferred a few of the projects and their associated expenditures that were not going to be started in FY 2013 back to FY 2014. Original health and dental claims expenses needed to be increased as well as the reinsurance reimbursements revenue for amounts exceeding the stop loss coverage. The Golf Course Fund revenues and expenses were adjusted to reflect expected results for the fiscal year.

All of the general fund department's actual results came in under the final budgeted amounts. All departments were under budget in the salaries, pension costs and health insurance line items. Travel and training, community relations and supply reductions in each department also contributed to lower than budgeted amounts. Motor fuel costs were exceeded in all of the departments due to the increase in the costs. The overall philosophy implemented in previous years to only make necessary purchases continues to contributed to lower expenditures throughout the City departments.

The current year budget relied on the expectation of relatively flat property tax revenue and slight increases for payroll tax, occupational license fees and insurance premium tax revenues. The actual results showed a slight decline in payroll tax revenue. However, the insurance premium tax and the occupational license fees resulted in higher than anticipated amounts. Final actual revenue categories exceeded final budgeted revenue amounts by \$522,476. This was due to the growth in the revenue for the occupational license fees and insurance premium tax. Actual expenditures and transfers came in \$3,694,273 under the budget amounts due to the departments monitoring expenditures during the year and some capital projects not being completed by June 30. As a result of the excess revenues, operational expenditure controls and capital improvements not being completed, the City ended the year with a fund balance that was \$4,216,749 greater than what was budgeted.

DEBT AND CAPITAL ASSET ADMINISTRATION

Long-term Debt

At year-end, the City had \$24,600,000 in outstanding bonds compared to \$26,120,000 last year. That is a decrease of \$1,520,000 or 5.82 percent as shown in the following table:

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Bonds payable						
Obligations						
(backed by						
fee revenues) \$	-	\$ -	\$ 2,430,000	\$ 2,640,000	\$ 2,430,000	\$ 2,640,000
Bonds payable						
(backed by city)	20,775,000	21,775,000	1,395,000	1,705,000	22,170,000	23,480,000
Totals	\$ 20,775,000	\$ 21,775,000	\$ 3,825,000	\$ 4,345,000	\$ 24,600,000	\$ 26,120,000

Additional information on the City's long-term debt can be found in Note E on pages 43-48 of this report.

Capital Assets

At June 30, 2013, the capital assets amounted to \$221 million invested in capital assets which include land, water and sewer systems, equipment, vehicles, buildings, park facilities, roads and sidewalks. This represents a net increase of \$4.8 million, or 1.5 percent, over last year due to the investment in street projects, storm water projects, golf clubhouse facility and water and sewer infrastructure improvements. The increase can also be attributed to the replacement of vehicles and equipment during the fiscal year.

	Governmental Activities		Business-type Activities	
	2013	2012	2013	2012
Not being depreciated:				
Land	\$ 10,602,492	\$ 10,602,492	\$ 4,785,542	\$ 4,785,542
Construction in progress	510,885	14,616,019	-	558,729
Other capital assets being depreciated:				
Improvements	17,150,450	16,569,481	581,199	581,199
Water and sewer system Infrastructure	105,922,804	92,852,092	42,133,077	40,433,434
Buildings	20,430,757	17,057,893	-	-
Computer upgrade	-	-	4,200,497	4,200,497
Water meters	-	-	56,396	56,396
Machinery and equipment	4,074,306	3,608,086	1,585,440	1,504,676
Vehicles	6,332,325	6,195,400	1,890,644	1,866,002
Subtotal	<u>165,024,019</u>	<u>161,501,463</u>	<u>56,228,207</u>	<u>54,995,204</u>
Accumulated depreciation	<u>(84,512,519)</u>	<u>(80,751,359)</u>	<u>(25,709,168)</u>	<u>(24,271,514)</u>
TOTALS	\$ <u>80,511,500</u>	\$ <u>80,750,104</u>	\$ <u>30,519,039</u>	\$ <u>30,723,690</u>

This year's major additions included:

Business-type activities:

Water and sewer system improvements paid for with system revenues \$ 985,000

Governmental-type activities:

The purchase of equipment and vehicles with general fund revenues. 968,000

Improvements and street projects paid for with state and federal grant funds
and general fund revenues. 1,825,000
\$ 3,778,000

Additional information on the City's capital assets can be found in Note D on pages 42-43 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The upcoming budget brings with it a continuing conservative approach for the revenue amounts. The City of Florence has experienced some economic growth during the last two years and seems to have had a slight recovery in the areas of payroll tax and insurance premium taxes during the current fiscal year. The City has been successful in dealing with budget realities in a positive manner to remain financially sound. The budget for the 2014 fiscal year calls for core revenues remaining consistent with actual results for fiscal year 2013. It is anticipated that property tax revenue will remain constant with the level experienced during the prior fiscal year and that Council will not adopt a property tax increase for the fifth year in a row. The City expects slight growth in the remainder of the core revenue line items. The City has taken an extremely conservative approach to our expenditures to be able to continually provide the highest level of service for the residents. The City will once again reinforce the philosophy about only purchasing that which is deemed to be a necessity. The anticipated slow growth in the community is expected to continue until the economic situation turns around over the next couple of years. The rising cost of all types of insurance, including liability, workers compensation, and health and dental continues to be an annual struggle. In addition, health care reform costs, state mandated retirement contributions and rising motor fuel and utility costs are continuing to increase the annual growth of the City's expenditures. The City is constantly looking for ways to operate the departments more efficiently and effectively. In addition, some changes have been made to the employee benefits to assist in curtailing personnel cost increases in the future.

Funds have been identified in the budget for the construction of a new fire substation. A major street project will start with Phase 1 of 3 in fiscal year 2014. The City has also included a budgeted line item to start a medical clinic on the campus of the Government Center as a way of cutting and controlling medical care costs of its employees. All of the above mentioned projects are in very early phases of production and are expected to be completed by the end of FY 2014. The Council continues to follow a rolling three year strategic plan and monitor the economic conditions to maintain a conservative approach to the City's finances.

The City continues to implement its annual plan to upgrade the City's infrastructure. Contractors were hired and are replacing certain sidewalks and curbs and are repaving City streets. The City has continuing plans to upgrade the water and sewer system as well as the storm water infrastructure during the upcoming year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administrative Office or the Department of Finance at 8100 Ewing Boulevard, Florence, Kentucky.

Richard J. Lunnemann
City Coordinator



Linda J. Chapman CPA
Finance Director



CITY OF FLORENCE, KENTUCKY

Statement of Net Position

June 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 52,496,708	\$ 6,536,680	\$ 59,033,388
Investments	6,499,778	-	6,499,778
Receivables:			
Property taxes	109,004	-	109,004
Intergovernmental	81,126	-	81,126
Accrued interest	98,531	-	98,531
Accounts	5,065,464	1,522,724	6,588,188
Internal balances	18,593	(18,593)	-
Inventories	153,208	209,040	362,248
Prepays	407,684	55,268	462,952
Restricted cash and cash equivalents	10,742	494,374	505,116
Performance bonds	33,530	-	33,530
Capital assets(net of accumulated depreciation)			
Land	10,602,492	4,785,542	15,388,034
Construction in progress	510,885	-	510,885
Systems	-	19,997,416	19,997,416
Improvements	10,819,178	327,884	11,147,062
Infrastructure	43,296,651	-	43,296,651
Buildings	12,593,442	3,585,120	16,178,562
Machinery and equipment	1,352,829	636,695	1,989,524
Water meters	-	971,609	971,609
Vehicles	1,336,023	214,774	1,550,797
Total assets	<u>145,485,868</u>	<u>39,318,533</u>	<u>184,804,401</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on refunding	518,432	434,464	952,896
Total deferred outflows of resources	<u>518,432</u>	<u>434,464</u>	<u>952,896</u>
LIABILITIES			
Accounts payable	556,892	372,519	929,411
Accrued liabilities	261,503	142,394	403,897
Accrued interest payable	121,735	39,024	160,759
Unearned revenue	67,979	-	67,979
Customer deposits	-	285,158	285,158
General obligation bonds payable - current	1,020,000	325,000	1,345,000
Revenue bonds payable - current	-	200,000	200,000
Compensated absences - current	800,000	95,000	895,000
Compensated absences	379,369	1,295	380,664
General obligation bonds payable	19,755,000	1,070,000	20,825,000
Revenue bonds payable	-	2,230,000	2,230,000
Total liabilities	<u>22,962,478</u>	<u>4,760,390</u>	<u>27,722,868</u>
NET POSITION			
Invested in capital assets, net of related debt	59,736,500	26,694,039	86,430,539
Restricted for debt service	-	248,499	248,499
Unrestricted	63,305,322	8,050,069	71,355,391
Total net position	<u>\$ 123,041,822</u>	<u>\$ 34,992,607</u>	<u>\$ 158,034,429</u>

The notes to the financial statements are an integral part of this statement.

CITY OF FLORENCE, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

Functions/Programs Primary government:	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Governmental activities:						
Administration	\$ 4,034,351	\$ 783,849	\$ -	\$ -	(3,250,502)	\$ -
Police	7,303,391	9,870	-	418,445	(6,875,076)	-
Fire	6,135,505	2,791,936	-	285,337	(3,058,232)	-
Public services	8,316,012	999,026	2,131,843	30,000	(5,155,143)	-
Interest on long-term debt	755,071	-	-	-	(755,071)	-
Total governmental activities	26,544,330	4,584,681	2,131,843	733,782	(19,094,024)	-
Business-type activities:						
Water and sewer service	7,571,427	8,361,515	-	-	-	790,088
Golf course	1,311,907	1,205,788	-	-	-	(106,119)
Total business-type activities	8,883,334	9,567,303	-	-	-	683,969
Total primary government	\$ 35,427,664	\$ 14,151,984	\$ 2,131,843	\$ 733,782	(19,094,024)	(106,119)
General revenues:						
Taxes:						
Property taxes, levied for general purposes					6,998,708	-
Public service taxes					520,742	-
Taxes, levied for bank deposits					183,325	-
Payroll license tax					14,871,599	-
Gross receipts license					2,235,304	-
Insurance premium tax					4,098,924	-
Other					126,072	-
Uses of property					116,425	-
Interest					177,308	22,544
Miscellaneous					124,528	-
Transfers					(100,000)	100,000
Total general revenues and special items					29,352,935	122,544
Change in net position					10,258,911	806,513
Net position-beginning					112,782,911	34,186,094
Net position-ending					\$ 123,041,822	\$ 34,992,607
						\$ 158,034,429

The notes to the financial statements are an integral part of this statement.

CITY OF FLORENCE, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2013

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 34,530,806	\$ 4,609,696	\$ 39,140,502
Investments	6,499,778	-	6,499,778
Inventories	82,510	70,698	153,208
Receivables:			
Property taxes	109,004	-	109,004
Intergovernmental	25,635	55,491	81,126
Accrued interest	98,531	-	98,531
Accounts	5,060,258	5,206	5,065,464
Prepays	407,684	-	407,684
Due from other funds	7,320	11,273	18,593
Restricted assets:			
Cash	10,742	-	10,742
Performance bonds	33,530	-	33,530
Total assets	\$ 46,865,798	\$ 4,752,364	\$ 51,618,162
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 417,870	\$ 108,909	\$ 526,779
Accrued liabilities	261,503	-	261,503
Deferred revenue	67,979	-	67,979
Total liabilities	747,352	108,909	856,261
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-property taxes	109,004	-	109,004
Total deferred inflows of resources	109,004	-	109,004
Fund balances:			
Nonspendable:			
Inventories	82,510	70,698	153,208
Prepays	407,684	-	407,684
Restricted:			
Street resurfacing	-	599,858	599,858
Committed to:			
Economic stabilization	5,000,000	-	5,000,000
Equipment replacement	2,000,000	-	2,000,000
Assigned to:			
Capital projects	3,590,000	2,006,396	5,596,396
Law enforcement	-	342,870	342,870
Aquatic center	-	1,623,633	1,623,633
Unassigned:	34,929,248	-	34,929,248
Total fund balances	46,009,442	4,643,455	50,652,897
Total liabilities and fund balances	\$ 46,865,798	\$ 4,752,364	\$ 51,618,162
Total governmental fund balances			\$ 50,652,897
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation \$84,512,519			80,511,500
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			109,004
An internal service fund is used by management to charge certain costs such as health and dental insurance to certain funds. The assets and liabilities of the internal service fund must be added to the statement of net assets.			13,326,093
Accrued interest payable on long-term debt			(121,735)
Costs of issuance of debt, premiums and discounts are currently expensed for governmental funds and are carried as deferred charges in the statement of net assets.			518,432
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds:			
Accrued absences payable			(1,179,369)
Bonds and leases payable			(20,775,000)
Net position of governmental activities			\$ 123,041,822

The notes to the financial statements are an integral part of this statement.

CITY OF FLORENCE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 7,707,092	\$ -	\$ 7,707,092
Licenses and permits	19,083,822	2,248,077	21,331,899
Intergovernmental	2,238,846	626,780	2,865,626
Fines and forfeitures	247,390	-	247,390
Charges for services	3,603,041	759,513	4,362,554
Uses of property	-	116,425	116,425
Interest	165,645	11,663	177,308
Miscellaneous	85,140	352	85,492
Total revenues	<u>33,130,976</u>	<u>3,762,810</u>	<u>36,893,786</u>
EXPENDITURES			
Current:			
Administration	2,630,140	-	2,630,140
Police	7,481,911	24,845	7,506,756
Fire	6,042,289	-	6,042,289
Public services	6,923,847	2,919,958	9,843,805
Debt service:			
Principal	1,000,000	-	1,000,000
Interest	711,175	-	711,175
Total expenditures	<u>24,789,362</u>	<u>2,944,803</u>	<u>27,734,165</u>
Excess(deficiency) of revenues over(under) expenditures	<u>8,341,614</u>	<u>818,007</u>	<u>9,159,621</u>
OTHER FINANCING SOURCES(USES)			
Transfers in	-	1,325,000	1,325,000
Transfers out	(2,425,000)	-	(2,425,000)
Total other financing sources and uses	<u>(2,425,000)</u>	<u>1,325,000</u>	<u>(1,100,000)</u>
Net change in fund balances	5,916,614	2,143,007	8,059,621
Fund balances - beginning	40,092,828	2,500,448	42,593,276
Fund balances - ending	<u>\$ 46,009,442</u>	<u>\$ 4,643,455</u>	<u>\$ 50,652,897</u>

The notes to the financial statements are an integral part of this statement.

CITY OF FLORENCE, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2013

Net change in fund balances-total governmental funds	\$ 8,059,621
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:	
Capital asset purchases capitalized	4,226,313
Depreciation expense	(4,464,916)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This is the change in the amount through the year.	
	1,009,455
Government funds report the effect of issuance cost, premiums, discounts and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	
	(30,309)
Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
	1,000,000
Accrued interest on long-term debt is reported in the government-wide financial statements and not reported in the governmental funds. This is the change in the amount of interest accrued through the year.	
	(13,587)
An internal service fund is used by management to charge the costs of certain activities, such as health and dental insurance to individual funds. The net revenues(expenses) of the internal service fund is reported with governmental activities.	
	550,836
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds such as compensated absences.	
	(78,502)
Change in net position of governmental activities	\$ 10,258,911

The notes to the financial statements are an integral part of this statement.

CITY OF FLORENCE, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2013

	Business-type Activities-Enterprise Funds			Governmental Activities
	Water and Sewer Service	Golf Course	Total Current Year	Health and Dental
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 5,596,146	\$ 940,534	\$ 6,536,680	\$ 13,356,206
Accounts receivable	1,518,724	4,000	1,522,724	-
Inventories	156,009	53,031	209,040	-
Prepays	48,634	6,634	55,268	-
Total current assets	<u>7,319,513</u>	<u>1,004,199</u>	<u>8,323,712</u>	<u>13,356,206</u>
Noncurrent assets:				
Restricted cash and cash equivalents	494,374	-	494,374	-
Capital assets (net of accumulated depreciation)				
Land	-	4,785,542	4,785,542	-
Improvements	-	327,884	327,884	-
Systems and equipment	20,183,941	450,171	20,634,112	-
Water meters	971,609	-	971,609	-
Building	7,146	3,577,973	3,585,119	-
Vehicles	214,774	-	214,774	-
Total noncurrent assets	<u>21,871,844</u>	<u>9,141,570</u>	<u>31,013,414</u>	<u>-</u>
Total assets	<u>29,191,357</u>	<u>10,145,769</u>	<u>39,337,126</u>	<u>13,356,206</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charges on refunding	254,640	179,824	434,464	-
Total deferred outflows of resources	<u>254,640</u>	<u>179,824</u>	<u>434,464</u>	<u>-</u>
LIABILITIES				
Current liabilities:				
Accounts payable	343,433	29,086	372,519	30,113
Accrued liabilities	69,432	72,962	142,394	-
Compensated absences	95,000	-	95,000	-
Accrued interest payable	23,766	15,258	39,024	-
Due to other funds	18,593	-	18,593	-
Customer deposits	285,158	-	285,158	-
Bonds payable-current	200,000	325,000	525,000	-
Total current liabilities	<u>1,035,382</u>	<u>442,306</u>	<u>1,477,688</u>	<u>30,113</u>
Noncurrent liabilities:				
Compensated absences	1,295	-	1,295	-
General obligation bonds payable	-	1,070,000	1,070,000	-
Revenue bonds payable	2,230,000	-	2,230,000	-
Total noncurrent liabilities	<u>2,231,295</u>	<u>1,070,000</u>	<u>3,301,295</u>	<u>-</u>
Total liabilities	<u>3,266,677</u>	<u>1,512,306</u>	<u>4,778,983</u>	<u>30,113</u>
NET ASSETS				
Invested in capital, net of related debt	18,947,470	7,746,569	26,694,039	-
Restricted for:				
Debt service	248,499	-	248,499	-
Unrestricted	6,983,351	1,066,718	8,050,069	13,326,093
Total net position	<u>\$ 26,179,320</u>	<u>\$ 8,813,287</u>	<u>\$ 34,992,607</u>	<u>\$ 13,326,093</u>

The notes to the financial statements are an integral part of this statement.

CITY OF FLORENCE, KENTUCKY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS

For the Year Ended June 30, 2013

	Business-type Activities-Enterprise Funds			Governmental Activities
	Water and Sewer Service	Golf Course	Totals Current Year	Health and Dental
OPERATING REVENUES				
Charges for sales and services:				
Water fees	\$ 5,800,744	\$ -	\$ 5,800,744	\$ -
Sewer charges	2,235,289	-	2,235,289	-
Penalties	124,916	-	124,916	-
Tap in fees	67,530	-	67,530	-
Meter installations	36,460	-	36,460	-
Other service charges	43,460	-	43,460	-
Golf course revenues	-	1,205,788	1,205,788	-
Other services	-	-	-	3,347,819
Miscellaneous	53,116	-	53,116	-
Total operating revenues	8,361,515	1,205,788	9,567,303	3,347,819
OPERATING EXPENSES				
Cost of sales and services	6,149,790	868,387	7,018,177	2,796,983
Loss on disposal of property	-	233	233	-
Depreciation	1,343,222	323,041	1,666,263	-
Total operating expenses	7,493,012	1,191,661	8,684,673	2,796,983
NET OPERATING INCOME(LOSS)	868,503	14,127	882,630	550,836
NON-OPERATING REVENUES				
Interest income	19,313	3,231	22,544	39,036
Interest expense	(78,415)	(120,246)	(198,661)	-
Total non-operating income	(59,102)	(117,015)	(176,117)	39,036
Transfers	-	100,000	100,000	1,000,000
NET INCOME	809,401	(2,888)	806,513	1,589,872
NET POSITION-BEGINNING OF YEAR	25,369,919	8,816,175	34,186,094	11,736,221
NET POSITION-END OF YEAR	\$ 26,179,320	\$ 8,813,287	\$ 34,992,607	\$ 13,326,093

The notes to the financial statements are an integral part of this statement.

CITY OF FLORENCE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2013

	Business-type Activities-Enterprise Funds			Governmental Activities
	Water and Sewer Service	Golf Course	Totals Current Year	Health and Dental
Cash flows from operating activities:				
Cash received from customers	\$ 8,266,037	\$ 1,207,787	\$ 9,473,824	\$ 3,347,819
Cash paid to suppliers	(2,079,006)	(295,279)	(2,374,285)	(2,927,842)
Cash paid to employees	(4,130,950)	(586,033)	(4,716,983)	-
Net cash from(used by) operating activities	<u>2,056,081</u>	<u>326,475</u>	<u>2,382,556</u>	<u>419,977</u>
Cash flows from noncapital financing activities:				
Transfer from other funds	-	100,000	100,000	1,000,000
Net cash from(used by) noncapital financing activities	<u>-</u>	<u>100,000</u>	<u>100,000</u>	<u>1,000,000</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(1,240,706)	(33,970)	(1,274,676)	-
Amortization of issuance costs	25,896	7,326	33,222	-
Interest paid on capital debt	(43,486)	(123,636)	(167,122)	-
Principal paid on debt	(210,000)	(310,000)	(520,000)	-
Net cash from(used by) financing activities	<u>(1,468,296)</u>	<u>(460,280)</u>	<u>(1,928,576)</u>	<u>-</u>
Cash flows from investing activities:				
Interest income	19,313	3,231	22,544	39,036
Net cash provided by investing activities	<u>19,313</u>	<u>3,231</u>	<u>22,544</u>	<u>39,036</u>
Net increase(decrease) in cash	607,098	(30,574)	576,524	1,459,013
Cash at beginning of year	5,483,422	971,108	6,454,530	11,897,193
Cash at end of year	<u>\$ 6,090,520</u>	<u>\$ 940,534</u>	<u>\$ 7,031,054</u>	<u>\$ 13,356,206</u>
Reconciliation of operating income to net cash used by operating activities:				
Operating income(loss)	\$ 868,503	\$ 14,127	\$ 882,630	\$ 550,836
Adjustments to reconcile operating income to net cash provided(used) by operating activities:				
Depreciation expense	1,343,222	323,041	1,666,263	-
Changes in assets and liabilities:				
Decrease(increase) in accounts receivable	(95,478)	12,404	(83,074)	-
Decrease(increase) in prepaid expenses	(540)	(284)	(824)	-
Decrease(increase) in inventory	(448)	(215)	(663)	-
Increase(decrease) in accounts payable	(86,546)	(11,446)	(97,992)	(130,859)
Increase(decrease) in accrued liabilities	3,066	(11,152)	(8,086)	-
Increase(decrease) in due to other funds	(620)	-	(620)	-
Increase(decrease) in customer deposits	24,922	-	24,922	-
Net cash used by operating activities	<u>\$ 2,056,081</u>	<u>\$ 326,475</u>	<u>\$ 2,382,556</u>	<u>\$ 419,977</u>
Noncash investing, capital and financing activities:				
Increase in fair value of investments	-	-	-	-
Borrowing under capital lease	-	-	-	-
Contributions of capital assets from government	-	-	-	-

The notes to the financial statements are an integral part of this statement.

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NOTE A-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Florence, Kentucky, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the City are described below.

Financial Reporting Entity

The City of Florence is a municipality operating under a Mayor/Council form of government. Legislative authority is vested in the six City Council members. As required by accounting principles generally accepted in the United States of America, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each blended component unit of the City has a June 30 year end. The component units discussed below are included in the City's reporting entity because of the significance of its operational and/or financial relationship with the City.

Included within the Reporting Entity:

City of Florence Municipal Properties Corporation

The City of Florence Municipal Properties Corporation was formed to act as an agent and to be instrumental in the financing of public improvements and projects of a capital nature for the City and for the particular purpose of acquiring real estate located within the City and constructing, acquiring and equipping thereon capital improvements, facilities, buildings, structures and related appurtenances. The Corporation finances these projects by the issuance of debt. These debt issues are secured by (1) first mortgage liens on the projects, and (2) lease and option agreements between the Corporation and the City, the construction agreements and pledged receipts. The lease and option agreements require the City to pay rental from specified revenues, on a yearly basis with the option to renew each year. If the City renews the lease from year-to-year, and pays the rentals for each year as stipulated, and when the Corporation has fully paid and retired all the bonds, the Corporation agrees it will convey the properties to the City free and clear.

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which direct expenses of a given function or segments are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to

CITY OF FLORENCE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, payroll fees, insurance license fees, occupational license fees and interest are all considered to be susceptible to accrual and have been recognized as revenues in the current fiscal year. All other revenue items are considered recorded as revenue when the funds have been received.

The government reports the following funds of the financial reporting entity:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The municipal aid road/LGEA fund is used to account for funds received from the state for road improvements and snow removal.

The Infrastructure Fund is used to account for a designated portion of payroll taxes, storm water fees and grants to be used for the annual repairs to the City road infrastructure and storm water lines.

The asset forfeiture fund accounts for all funds received from seized assets and purchases made with those funds.

The aquatic center fund is used to account for the operations of the City's pool facility.

CITY OF FLORENCE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Proprietary funds distinguish operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The City applies all GASB pronouncements and FASB Statements and Interpretations, APB Opinions and Accounts Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

The government reports the following proprietary funds:

The water and sewer fund accounts for the activities of the government's water and sewer sales and services to residential and commercial users.

The World of Golf fund is responsible for the operations of the golf course facility.

The City's only internal service fund is the self-insurance fund for the City's health and dental costs.

Assets, liabilities and net assets or equity

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with an initial maturity date within three months of the date acquired by the City.

The City is authorized by state statute to invest in:

1. Obligations of the United States and of its agencies and instrumentalities.
2. Certificates of deposits.
3. Banker's acceptance.
4. Commercial paper.
5. Bonds of other state or local governments.
6. Mutual funds.

Investments

In accordance with Government Accounting Standards Board Statement No. 31, investments held at June 30, 2013 are recorded at fair value based on quoted market prices.

Property Tax Receivable

Property taxes are levied as of January 1 on property values assessed as of the same date. The taxes are billed on approximately October 1 and are due and payable on December 31. On January 1, the bill becomes delinquent and penalties and interest may be assessed by the City.

CITY OF FLORENCE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

A lien may be placed on the property on January 1. Total real property tax assessments were \$2,368,381,152 and tangible tax assessments were \$303,628,112.

Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from/to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables".

Inventories

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2013 are recorded as prepaid items.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets are reported in the governmental activities column of the government-wide statement of net assets. Capital assets used by the proprietary fund are reported in the business type activities column of the government-wide statement of net assets. The accounting and reporting treatment applied to capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized (recorded and accounted for). Capital assets are defined by the City as assets with an initial, individual minimum cost of \$1,000 with a useful life in excess of two years. Infrastructure such as streets, traffic signals and signs are capitalized. The valuation basis for general capital assets are historical costs, or where historical cost is not available, estimated historical cost based on replacement cost.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet. The range of lives used for depreciation purposes for each capital asset class are as follows:

Buildings	30 years
Building Improvements	10-20 years
Public Domain Infrastructure	25-40 years
Vehicles	5-10 years
Office Equipment	3-10 years

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits based upon a retirement basis. There is a liability for unpaid accumulated sick leave since the government does have a policy to pay specified amounts when employees retire from service with the government. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Long-Term Obligations

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as revenue and payment of principle and interest reported as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report as a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government only has one item that qualifies for reporting in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value if refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government only has one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source-property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Fund Balance Policies

Net assets is the difference between assets and liabilities. Net assets invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets.

Fund balance of the governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

In the fund financial statements, government funds report components of fund balance for amounts that are nonspendable, restricted, committed, assigned or unassigned:

Nonspendable fund balances arise when resources cannot be spent because of their form and because resources must be maintained intact.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed fund balances are those that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the City is the Council. The Council can by adoption of an ordinance prior to the end of the year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken to remove or revise the limitation.

Assigned fund balances are those that are intended to be used by the government for specific purposes, but do not meet the criteria to be classified as committed. Council has authorized the finance director to assign fund balance through the financial policies and procedures established. Unlike commitments, assignments generally only exist temporarily. In other words an additional action of does not normally have to be taken for the removal of an assignment. Conversely, additional action is essential to either remove or revise a commitment.

Unassigned fund balance is the residual classification for the general fund. The classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund.

Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned and unassigned fund balance in the government fund financial statements a flow assumption must be made about the order in which resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

June 30, 2013

Operating Revenues and Expenses

Operating revenues and expenses for the proprietary fund are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, governmental funds are classified as follows:

Governmental funds – by character	Current-further classified by function
	Debt service
	Capital outlay

Proprietary fund – by operating and non-operating

In the fund financial statements governmental funds report expenditures of financial resources. Proprietary funds report expenses related to use of economic resources.

Interfund Transactions

Interfund services provided/used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenditures. Actual results could differ from those estimates.

Date of Management's Review

Subsequent events were evaluated through September 10, 2013, which is the date the financial statements were available for review.

CITY OF FLORENCE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE B-STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. In accordance with City ordinance, prior to June 30, the Mayor submits to the Council, a proposed operating budget on a basis consistent with generally accepted accounting principles for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- B. By July 1, the budget is legally enacted through passage of an ordinance.
- C. The City Coordinator is required by Kentucky Revised Statutes to present a quarterly report to the Council explaining any variance from the approved budget.
- D. Appropriations continue in effect until a new budget is adopted.
- E. The Council may authorize supplemental appropriations during the year.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all funds except the capital projects fund, which is not budgeted. Expenditures may not legally exceed budgeted appropriations at the department level. Any revisions to the budget that would alter total revenues of any fund and expenditures of any department must be approved by the Council; however, with proper approval by the City Coordinator, budgetary transfers within departments can be made. The Council adopted two supplementary appropriation ordinances. All appropriations lapse at fiscal year end.

The City Council has adopted guidelines for maintaining a minimum general fund balance in the amount of 17% of budgeted operating expenditures and recurring transfers. In either case, unusual items such as one-time expenditures shall be excluded from the calculation. In addition, Council has adopted a resolution and established a stabilization fund balance. This fund balance may only be used for operations to pay for expenditures when the unreserved fund balance falls below the minimum fund balance of 17% of expenditures and recurring transfers. Each December 31st, Mayor and Council shall determine if any funds are to be transferred to increase the stabilization fund balance.

NOTE C-DEPOSITS AND INVESTMENTS

As of June 30, 2013, the City had the following investments:

	Fair Value	Weighted Average Maturity(Years)
Certificates of deposit	\$ 6,000,000	0.15
Government obligations	1,004,894	0.70
Total fair value	\$ 7,004,894	
Portfolio weighted average maturity		0.43

CITY OF FLORENCE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Interest rate risk. In accordance with the City's investment policy, interest rate risk is limited by investing in public funds with the highest rate of return with the maximum security of principal. Investments are undertaken in a manner that seeks to ensure preservation of the capital in its portfolio.

Credit risk. State law limits the types of authorized investment instruments to obligations of the United States, its agencies, and instrumentalities. In addition, certificates of deposit or bonds of a bank or the Commonwealth of Kentucky, securities issued by a state or local government or shares of mutual funds are acceptable investments. The City's investment policy limits its authorized investment instruments in these investments to one of the top three highest rated categories by a nationally rated agency. As of June 30, 2013, the City's investment in government was rated Aaa by Moody's and AAAM by Standard & Poor's.

Concentration of credit risk. The City may not invest, at any one time, funds in any one of the above listed categories exceeding twenty percent of the total amount of funds invested on behalf of the City.

Custodial credit risk – deposits. For deposits, this is the risk that in the event of a bank failure, the City's deposits will not be returned. The City maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2013, the City's deposits are entirely insured and/or collateralized with securities held by the financial institutions on the City's behalf and the FDIC insurance.

Custodial credit risk – investments. For an investment, this is the risk, that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The policy permits investment in U.S. Treasury obligations and obligations backed by the full faith and credit of the United States and in the securities issued by certain associations and corporations established by the government of the United States. The City had custodial credit risk at June 30, 2013 in the amount of \$1,004,894 for its government obligations. The related securities totaling this amount are uninsured, unregistered and held by various Trust departments.

CITY OF FLORENCE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE D-CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended June 30, 2013 was as follows:

	Balance June 30, 2012	Additions	Adjustments/ Transfers	Retirements/ Deletions	Balance June 30, 2013
Governmental activities:					
Not being depreciated:					
Land	\$ 10,602,492	\$ -	\$ -	\$ -	\$ 10,602,492
Construction in progress	14,616,019	956,326	(15,061,460)	-	510,885
Subtotal	<u>25,218,511</u>	<u>956,326</u>	<u>(15,061,460)</u>	<u>-</u>	<u>11,113,377</u>
Other capital assets:					
Improvements	16,569,481	476,463	104,506	-	17,150,450
Infrastructure	92,852,092	1,824,691	11,473,923	(227,902)	105,922,804
Buildings	17,057,893	-	3,373,903	(1,039)	20,430,757
Machinery and equipment	3,608,086	476,287	109,127	(119,194)	4,074,306
Vehicles	6,195,400	492,546	(47,643)	(307,978)	6,332,325
Subtotal	<u>136,282,952</u>	<u>3,269,987</u>	<u>15,013,816</u>	<u>(656,113)</u>	<u>153,910,642</u>
Accumulated depreciation:					
Improvements	5,434,130	897,142	-	-	6,331,272
Infrastructure	60,946,088	1,907,967	-	(227,902)	62,626,153
Buildings	7,218,278	620,076	-	(1,039)	7,837,315
Machinery and equipment	2,474,354	366,317	-	(119,194)	2,721,477
Vehicles	4,678,509	673,414	(47,643)	(307,978)	4,996,302
Subtotal	<u>80,751,359</u>	<u>4,464,916</u>	<u>(47,643)</u>	<u>(656,113)</u>	<u>84,512,519</u>
Net other assets	<u>55,531,593</u>	<u>(1,194,929)</u>	<u>15,061,459</u>	<u>-</u>	<u>69,398,123</u>
Net capital assets	\$ <u>80,750,104</u>	\$ <u>(238,603)</u>	\$ <u>(1)</u>	\$ <u>-</u>	\$ <u>80,511,500</u>

*Depreciation was charged to functions as follows:

Governmental activities:	
Administration	\$ 1,719,746
Police	230,640
Fire	389,405
Public services	2,125,125
Total governmental activities depreciation expense	\$ <u>4,464,916</u>

CITY OF FLORENCE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

The following is a summary of changes in the capital assets in the proprietary funds:

	Balance June 30, 2012	Additions	Adjustment/ Transfers	Deletions	Balance June 30, 2013
Proprietary activities:					
Not being depreciated:					
Land	\$ 4,785,542	\$ -	\$ -	\$ -	\$ 4,785,542
Construction in progress	558,729	423,267	(981,996)	-	-
Subtotal	<u>5,344,271</u>	<u>423,267</u>	<u>(981,996)</u>	<u>-</u>	<u>4,785,542</u>
Other capital assets:					
Water and sewer system	40,433,434	750,355	981,996	(32,708)	42,133,077
Improvements	581,199	-	-	-	581,199
Buildings	4,200,497	-	-	-	4,200,497
Vehicles	1,008,729	68,927	47,643	(129,887)	995,412
Computer upgrade	56,396	-	-	-	56,396
Water meters	1,504,676	80,764	-	-	1,585,440
Machinery and equipment	1,866,002	168,361	-	(143,719)	1,890,644
Subtotal	<u>49,650,933</u>	<u>1,068,407</u>	<u>1,029,639</u>	<u>(306,314)</u>	<u>51,442,665</u>
Accumulated depreciation:					
Water and sewer system	21,093,313	1,043,438	(1,090)	-	22,135,661
Improvements	184,827	68,488	-	-	253,315
Buildings	478,380	136,998	-	-	615,378
Vehicles	774,617	84,905	51,003	(129,887)	780,638
Computer upgrade	55,264	1,132	-	-	56,396
Water meters	455,662	158,169	-	-	613,831
Machinery and equipment	1,229,451	173,133	(5,395)	(143,240)	1,253,949
Subtotal	<u>24,271,514</u>	<u>1,666,263</u>	<u>44,518</u>	<u>(273,127)</u>	<u>25,709,168</u>
Net other assets	<u>25,379,419</u>	<u>(597,856)</u>	<u>985,121</u>	<u>(33,187)</u>	<u>25,733,497</u>
Net assets	<u>\$ 30,723,690</u>	<u>\$ (174,589)</u>	<u>\$ 3,125</u>	<u>\$ (33,187)</u>	<u>\$ 30,519,039</u>

*Depreciation was charged to functions as follows:

Proprietary activities:	
Water and sewer	\$ 1,343,222
Golf Course	323,041
Total proprietary activities depreciation expense	<u>\$ 1,666,263</u>

NOTE E-LONG-TERM DEBT

Leases Payable

Operating Lease

The City leases copier and printing equipment under a noncancelable operating lease. Total costs for this lease was \$29,912 for the year ended June 30, 2013. The future minimum lease payments for this lease are as follows:

CITY OF FLORENCE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Year Ended June 30	Amount
2014	\$ 29,912
2015	29,912
2016	22,434
2017	-
2018	-
Totals	\$ <u>82,258</u>

Bonds Payable

The City issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at June 30, 2013, are as follows:

Aquatic center and skate park projects(Series 2010)	2.00-3.875%	\$ 6,275,000
Land-Series 2003A	1.60-4.85%	175,000
Land-Series 2011 refunding	2.00-3.375%	3,050,000
Land-Series 2003B	3.50-5.875%	150,000
Land-Series 2012 refunding	2.00-3.80%	2,485,000
General obligation refunding bonds(Series 2005A)	3.50-4.125%	6,820,000
Public project refunding bonds(Series 2008B)	3.20-4.00%	<u>1,820,000</u>
		\$ <u>20,775,000</u>

Proprietary Fund Debt

Water	2.50-4.20%	\$ 355,000
Water and Sewer System	1.45-2.50%	2,075,000
Golf Course	4.375%	<u>1,395,000</u>
		\$ <u>3,825,000</u>

CITY OF FLORENCE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

The following is a schedule of future debt service requirements to maturity at June 30, 2013 for bonds general activities and for business activities.

The City's general long-term debt service requirements to maturity at June 30, 2013, are as follows:

Fiscal Year June 30,	2010 GO Bonds		2011 GO Bonds	
	Principal	Interest	Principal	Interest
2014	\$ 245,000	\$ 189,119	\$ 35,000	\$ 80,406
2015	250,000	184,169	35,000	79,706
2016	250,000	179,169	130,000	78,056
2017	255,000	174,119	130,000	75,456
2018	260,000	168,968	130,000	72,856
2019-2023	1,415,000	739,770	700,000	323,199
2024-2028	1,645,000	506,850	785,000	234,851
2029-2033	1,955,000	192,108	905,000	109,461
2033-2034	-	-	200,000	3,375
Total Debt Service	\$ <u>6,275,000</u>	\$ <u>2,334,272</u>	\$ <u>3,050,000</u>	\$ <u>1,057,366</u>

Fiscal Year June 30,	2003A GO Bonds		2003B GO Bonds	
	Principal	Interest	Principal	Interest
2014	\$ 85,000	\$ 5,167	\$ 150,000	\$ 4,350
2015	90,000	1,755	-	-
2016	-	-	-	-
2017	-	-	-	-
2018	-	-	-	-
2019-2023	-	-	-	-
2024-2028	-	-	-	-
2029-2033	-	-	-	-
Total Debt Service	\$ <u>175,000</u>	\$ <u>6,922</u>	\$ <u>150,000</u>	\$ <u>4,350</u>

Fiscal Year June 30,	2005A GO Bonds		2008B GO Bonds	
	Principal	Interest	Principal	Interest
2014	\$ 375,000	\$ 269,701	\$ 95,000	\$ 65,935
2015	395,000	256,107	95,000	62,895
2016	405,000	241,789	100,000	59,855
2017	420,000	227,006	105,000	56,655
2018	435,000	211,256	105,000	53,295
2019-2023	2,450,000	786,653	590,000	209,360
2024-2028	2,340,000	246,261	730,000	89,595
Total Debt Service	\$ <u>6,820,000</u>	\$ <u>2,238,773</u>	\$ <u>1,820,000</u>	\$ <u>597,590</u>

CITY OF FLORENCE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Fiscal Year	2012 GO Bonds	
June 30,	Principal	Interest
2014	\$ 35,000	\$ 75,395
2015	100,000	74,045
2016	100,000	72,045
2017	100,000	70,045
2018	95,000	68,095
2019-2023	530,000	303,063
2024-2028	620,000	215,997
2029-2033	740,000	102,733
2034	165,000	3,135
Total Debt Service	\$ <u>2,485,000</u>	\$ <u>984,553</u>

The City's proprietary fund debt service requirements to maturity at June 30, 2013 are as follows:

Fiscal Year	2003 Water System		2008A Golf Course	
June 30,	Principal	Interest	Principal	Interest
2014	\$ 175,000	\$ 8,964	\$ 325,000	\$ 61,031
2015	180,000	3,060	340,000	46,812
2016	-	-	350,000	31,938
2017	-	-	380,000	16,624
2018	-	-	-	-
Total Debt Service	\$ <u>355,000</u>	\$ <u>12,024</u>	\$ <u>1,395,000</u>	\$ <u>156,405</u>

Fiscal Year	2012 Water and Sewer System	
June 30,	Principal	Interest
2014	\$ 25,000	\$ 35,543
2015	30,000	35,145
2016	210,000	33,405
2017	215,000	30,324
2018	220,000	23,980
2019-2023	1,135,000	87,560
2024	240,000	3,000
Total Debt Service	\$ <u>2,075,000</u>	\$ <u>248,957</u>

CITY OF FLORENCE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Advance Refundings

The City issued \$3,110,000 in general obligation bonds with interest rates ranging from 2.0% to 3.375%. The proceeds were used to partially advance refund \$2,700,000 of outstanding 2003A general obligation bonds from the year 2013 and on which had interest rates ranging from 3.55% to 4.85%. The net proceeds of \$3,001,150 (less a discount of \$46,650 and the payment of costs of issuance of \$59,000) were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, the 2003A bonds from 2013 on are considered defeased and the liability for those bonds have been removed.

The reacquisition price exceeded the net carrying amount of the old debt by \$301,150. This amount is being netted against the new debt and amortized over the remaining life of the new debt. The City advance refunded the 2003A general obligation bonds to reduce its total debt service over 23 years by \$370,362 and to obtain an economic gain (difference between the present values of the debt service payments of the old and new debt) of \$264,738.

The City issued \$2,530,000 in general obligation bonds with interest rates ranging from 2.0% to 3.80%. The proceeds were used to partially advance refund \$2,425,000 of outstanding 2003B general obligation bonds from the year 2013 and on which had interest rates ranging from 4.00% to 5.75%. The net proceeds of \$2,425,087 (less a discount of \$46,313 and the payment of costs of issuance of \$58,600) were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, the 2003B bonds from 2013 on are considered defeased and the liability for those bonds have been removed.

The reacquisition price exceeded the net carrying amount of the old debt by \$87. This amount is being netted against the new debt and amortized over the remaining life of the new debt. The City advance refunded the 2003B general obligation bonds to reduce its total debt service over 23 years by \$472,709 and to obtain an economic gain (difference between the present values of the debt service payments of the old and new debt) of \$332,011.

Changes in Governmental-Type Long-Term Liabilities

During the year ended June 30, 2013, the following changes occurred in liabilities reported in the general long-term debt:

CITY OF FLORENCE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

	June 30, 2012	Additions	Retirements	June 30, 2013	Amounts Due Within One Year
Compensated absences	\$ 1,100,867	\$ 917,686	\$ (839,184)	\$ 1,179,369	\$ 800,000
Bonds payable:					
Series 2003A	260,000	-	(85,000)	175,000	85,000
Series 2003B	295,000	-	(145,000)	150,000	150,000
Series 2005A	7,185,000	-	(365,000)	6,820,000	375,000
Series 2008B	1,915,000	-	(95,000)	1,820,000	95,000
Series 2010	6,510,000	-	(235,000)	6,275,000	245,000
Series 2011	3,080,000	-	(30,000)	3,050,000	35,000
Series 2012	2,530,000	-	(45,000)	2,485,000	35,000
Totals	<u>\$ 22,875,867</u>	<u>\$ 917,686</u>	<u>\$ (1,839,184)</u>	<u>\$ 21,954,369</u>	<u>\$ 1,820,000</u>

Compensated absences are liquidated by the general fund.

The government-wide statement of net assets includes \$1,820,000 of long-term liabilities due within one year for governmental activities and \$620,000 for business-type activities.

Changes in Business-Type Long-Term Liabilities

Long-term liability activity for business-type activities for the year ended June 30, 2013 was as follows:

	Balance June 30, 2012	Additions	Retired	Balance June 30, 2013	Amounts Due Within One Year
Bonds payable-water/sewer	\$ 525,000	\$ -	\$ (170,000)	\$ 355,000	\$ 175,000
Bonds payable-water/sewer	2,115,000	-	(40,000)	2,075,000	25,000
Compensated absences	117,388	70,138	(91,231)	96,295	95,000
Bonds payable-golf course	1,705,000	-	(310,000)	1,395,000	325,000
	<u>\$ 4,462,388</u>	<u>\$ 70,138</u>	<u>\$ (611,231)</u>	<u>\$ 3,921,295</u>	<u>\$ 620,000</u>

NOTE F-CLAIMS AND JUDGMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

NOTE G-EMPLOYEE RETIREMENT SYSTEM

Employer Contributions

County Employees Retirement System (CERS)

City employees who work at least 100 hours per month participate in the County Employees Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements, which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each county and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of the state legislature.

Non-hazardous Contributions - For the year ended June 30, 2013, all plan members were required to contribute 5% of their annual creditable compensation. Any plan members that entered the retirement plan after August 31, 2008, are required to contribute an additional 1% of their annual creditable compensation for health insurance. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2013, participating employers contributed 19.55% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2013 was 19.55% of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Hazardous Contributions - For the year ended June 30, 2013, all plan members were required to contribute 8% of their annual creditable compensation. Any plan members that entered the retirement plan after August 31, 2008, are required to contribute an additional 1% of their annual creditable compensation for health insurance. The state was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2013, participating employers contributed 37.60% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2013 was 37.60% of creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

CITY OF FLORENCE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

The required contribution and the actual percentage contributed by the City for the current and previous two years are as follows:

<u>Year</u>		<u>Contribution</u>	<u>Contributed</u>
2013	\$	3,357,501	100%
2012	\$	3,242,238	100%
2011	\$	2,805,424	100%

Medical Insurance Plan

The CERS provides post-retirement healthcare benefits to eligible members and dependents, under a cost-sharing multiple employer defined benefit plan. Medical benefits are offered to members who have retired from service or disability. The post-retirement healthcare is financed through member contributions and state appropriations.

NOTE H-DEFERRED COMPENSATION PLAN

Employees of the City of Florence may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments). Employees may also participate in a Section 401(k) adopted under the provisions of the Internal Revenue Code.

The deferred compensation plan is available to all employees of the City. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable financial emergency.

The deferred compensation plans are administered by ICMA and Kentucky Public Employees' Deferred Compensation Plan.

NOTE I-CONTINGENT LIABILITIES

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's Attorney, the resolution of these matters will not have a materially adverse effect on the financial condition of the government.

CITY OF FLORENCE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE J-INTERFUND TRANSACTIONS

A summary of the interfund account balances is as follows:

Due from/to other Funds			Amount
<u>Receivable Funds(s)</u>	<u>Payable Fund(s)</u>		
General	Water and sewer	\$	18,593
Infrastructure	General		(11,273)
Total		\$	<u>7,320</u>

Due from and due to other funds represent short-term accounts receivable and payable. The balances in these accounts are typically the result of time differences between the date that goods and services were provided and when payment occurred.

Transfers in/out		Amount
General	Infrastructure	1,000,000
General	Municipal aid/LGEA	125,000
General	Aquatic center	200,000
General	Health and Dental	1,000,000
General	Golf Course	100,000
Total		\$ <u>2,425,000</u>

During the year, transfers are used to move general fund resources to provide annual subsidy to the transit fund. For the year ended June 30, 2013, the City made the following annual transfers:

- 1) A transfer of \$1,000,000 was made from the general fund to the infrastructure fund to increase the start-up fund balance of the new fund.
- 2) A transfer of \$125,000 was made from the general fund to the special revenue fund for annual funding amounts for snow removal.
- 3) A transfer of \$200,000 was made from the general fund to the aquatic center for the annual subsidy to support the recreation operations.
- 4) A transfer of \$1,000,000 was made from the general fund to the health and dental fund as a one-time influx of funds for the future stability of the fund.
- 5) A transfer of \$100,000 was made from the general fund to the golf course fund for the annual subsidy to support the recreation operations.

NOTE K-RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The City has obtained insurance coverage through a commercial insurance company. In addition, the City has effectively managed risk through various employee education and prevention programs through the efforts and cooperation of its department heads. All risk for general liability management activities are accounted for in the General Fund. Expenditures and claims are recognized when probable that a loss has occurred and the amount of loss can be reasonably estimated.

CITY OF FLORENCE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

The City has established a Health and Dental Self-Insurance Fund. Employees participate in this program and certain other medical insurance programs offered by the City. Under this program, the first \$50,000 of a participant's medical claim are payable by the health and dental self-insurance fund. The City purchases insurance for claims in excess of coverage provided by the fund. The general fund participates in the program and makes payments to the health and dental fund based on estimates of the amount needed to pay current year claims. The claims liability of \$30,113 reported in the fund at June 30, 2013, is based upon the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the claims liability amount were:

	Balance at Beginning of Fiscal Year	Claims and Changes in Estimates	Claims Payments	June 30,
2010-2011	\$ 82,566	\$ 1,966,261	\$ 1,963,517	\$ 85,310
2011-2012	\$ 85,310	\$ 2,335,901	\$ 2,260,239	\$ 160,972
2012-2013	\$ 160,972	\$ 2,666,124	\$ 2,796,983	\$ 30,113

The City Attorney estimates that the amount of actual or potential claims against the City as of June 30, 2013, will not materially affect the financial condition of the City. Therefore, the General Fund contains no provision for estimated claims. No claim has exceeded insurance coverage amounts in the past three fiscal years.

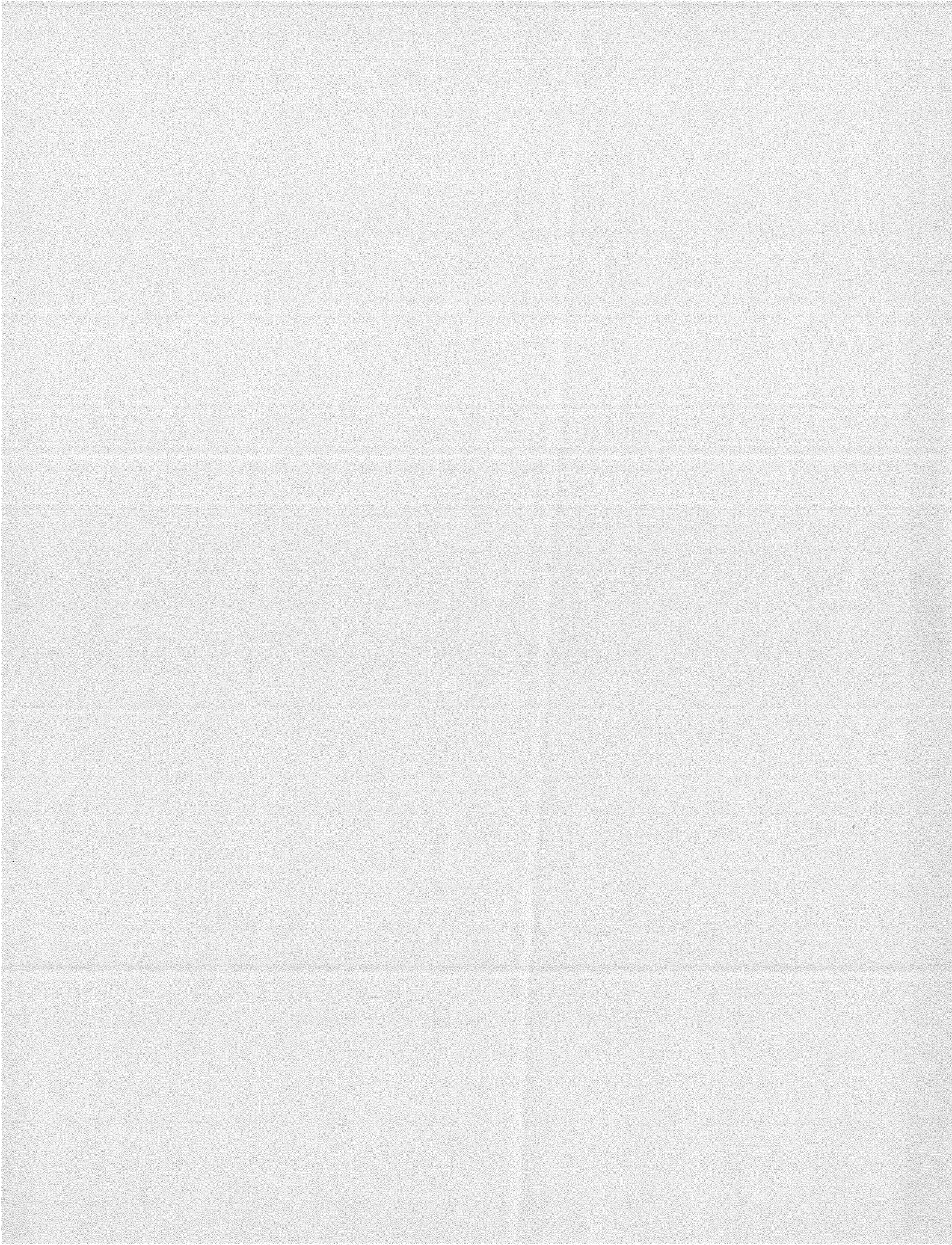
NOTE L – COMMITMENTS

At June 30, 2013, the City had the following commitments with respect to the following projects:

Projects	Commitments
Fire Substation	\$3,000,000
US 42 Turn Lane	\$590,000

REQUIRED SUPPLEMENTARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all funds except the capital projects fund, which is not budgeted. Expenditures may not legally exceed budgeted appropriations at the department level. Any revisions to the budget that would alter total revenues of any fund and expenditures of any department must be approved by the Council; however, with proper approval by the City Coordinator, budgetary transfers within departments can be made.



CITY OF FLORENCE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL-GENERAL FUND
For the Year Ended June 30, 2013

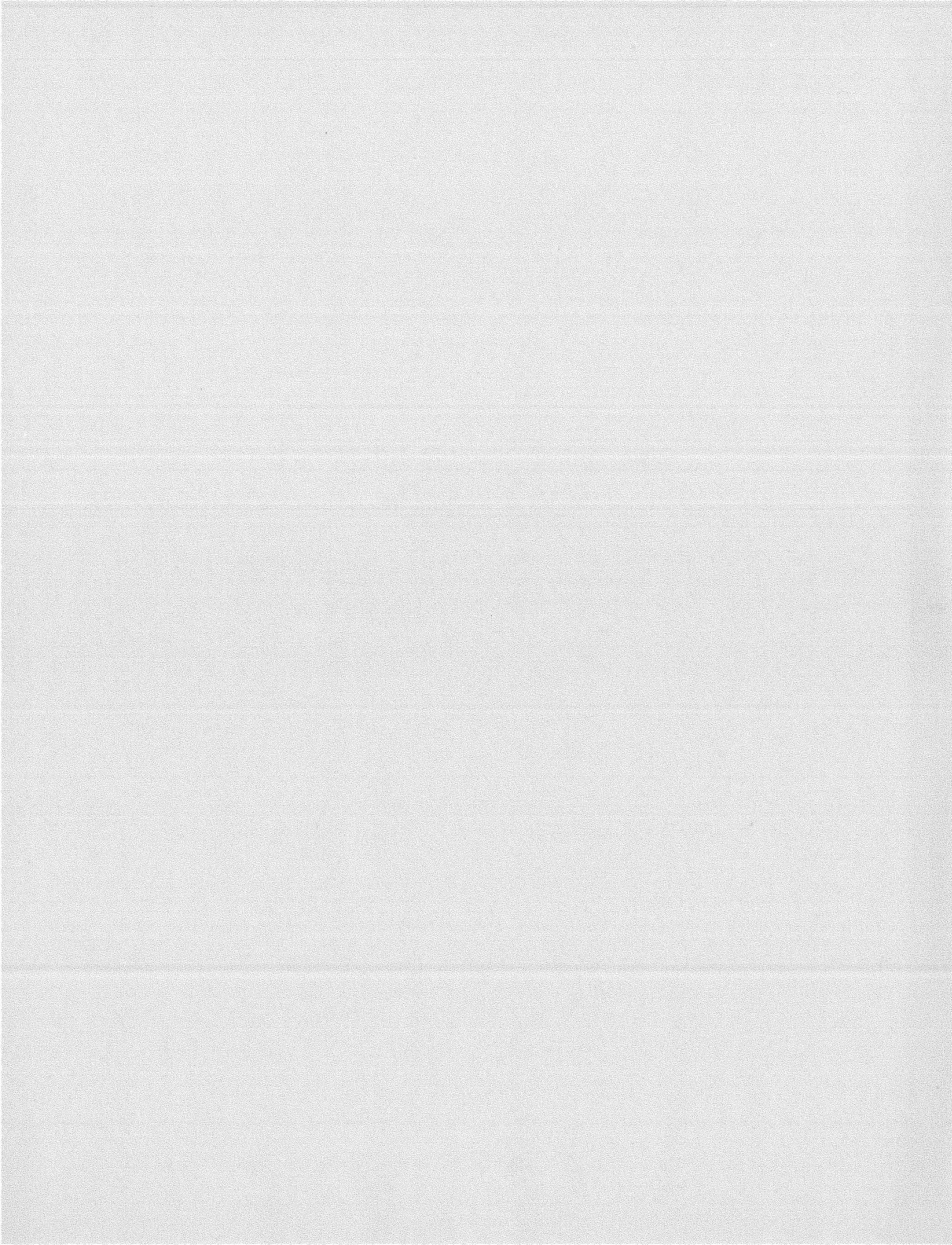
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Budgetary fund balance, July 1	\$ 38,239,549	\$ 40,092,828	\$ 40,092,828	\$ -
Resources (inflows):				
Taxes:				
Property	7,100,000	7,100,000	7,003,025	(96,975)
Franchise	550,000	550,000	520,742	(29,258)
Bank deposit	195,000	195,000	183,325	(11,675)
Licenses and permits:				
Payroll license fees	12,500,000	12,500,000	12,623,522	123,522
Gross receipts license fees	1,900,000	2,100,000	2,235,304	135,304
Insurance	3,600,000	4,000,000	4,098,924	98,924
Other	95,000	95,000	126,072	31,072
Intergovernmental	701,500	2,181,500	2,238,846	57,346
Fines and forfeitures	216,500	216,500	247,390	30,890
Charges for services	3,600,000	3,488,000	3,603,041	115,041
Interest	190,000	100,000	165,645	65,645
Miscellaneous	82,500	82,500	85,140	2,640
Amounts available for appropriation	<u>68,970,049</u>	<u>72,701,328</u>	<u>73,223,804</u>	<u>522,476</u>
Charges to appropriations (outflows):				
Administration:				
Personnel	1,169,600	1,169,600	977,303	192,297
Contractual	896,000	896,000	755,957	140,043
Operating/Maintenance	421,000	421,000	394,652	26,348
Capital outlay	577,000	577,000	502,228	74,772
Total administration	<u>3,063,600</u>	<u>3,063,600</u>	<u>2,630,140</u>	<u>433,460</u>
Police:				
Personnel	6,943,300	6,943,300	6,701,374	241,926
Contractual	30,000	30,000	28,354	1,646
Operating/Maintenance	477,100	477,100	427,702	49,398
Capital outlay	303,090	320,090	324,481	(4,391)
Total police	<u>7,753,490</u>	<u>7,770,490</u>	<u>7,481,911</u>	<u>288,579</u>
Fire:				
Personnel	5,653,900	5,653,900	5,250,713	403,187
Contractual	161,000	161,000	153,992	7,008
Operating/Maintenance	454,000	454,000	476,790	(22,790)
Capital outlay	181,000	881,000	160,794	720,206
Total fire	<u>6,449,900</u>	<u>7,149,900</u>	<u>6,042,289</u>	<u>1,107,611</u>
(Continued)				

CITY OF FLORENCE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL-GENERAL FUND
For the Year Ended June 30, 2013

(Continued)

Public services:				
Personnel	\$ 3,168,800	\$ 3,168,800	\$ 3,064,137	\$ 104,663
Contractual	411,000	411,000	420,844	(9,844)
Operating/Maintenance	1,059,500	1,059,500	1,062,992	(3,492)
Capital outlay	5,315,500	6,126,450	2,375,874	3,750,576
Total public services	<u>9,954,800</u>	<u>10,765,750</u>	<u>6,923,847</u>	<u>3,841,903</u>
Debt service:				
Principal	920,000	1,000,000	1,000,000	-
Interest	649,920	733,895	711,175	22,720
Total debt service	<u>1,569,920</u>	<u>1,733,895</u>	<u>1,711,175</u>	<u>22,720</u>
Other financing uses:				
Special revenue	325,000	325,000	1,325,000	(1,000,000)
Enterprise fund	100,000	100,000	100,000	-
Internal service	-	-	1,000,000	(1,000,000)
Total other financing uses	<u>425,000</u>	<u>425,000</u>	<u>2,425,000</u>	<u>(2,000,000)</u>
Total charges to appropriations	<u>29,216,710</u>	<u>30,908,635</u>	<u>27,214,362</u>	<u>3,694,273</u>
Budgetary fund balance, June 30	<u>\$ 39,753,339</u>	<u>\$ 41,792,693</u>	<u>\$ 46,009,442</u>	<u>\$ 4,216,749</u>

**COMBINING AND INDIVIDUAL
FUND STATEMENTS
AND SCHEDULES**



CITY OF FLORENCE, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2013

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Municipal Aid	Infrastructure	Asset Forfeiture	Aquatic Center	
ASSETS					
Cash and cash equivalents	\$ 568,672	\$ 2,031,998	\$ 342,870	\$ 1,666,156	\$ 4,609,696
Intergovernmental receivable	55,491	-	-	-	55,491
Due from other funds	-	11,273	-	-	11,273
Accounts receivable	-	-	-	5,206	5,206
Inventory	70,698	-	-	-	70,698
Total assets	<u>\$ 694,861</u>	<u>\$ 2,043,271</u>	<u>\$ 342,870</u>	<u>\$ 1,671,362</u>	<u>\$ 4,752,364</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 24,305	\$ 36,875	\$ -	\$ 47,729	\$ 108,909
Total liabilities	<u>24,305</u>	<u>36,875</u>	<u>-</u>	<u>47,729</u>	<u>108,909</u>
Fund balances:					
Nonspendable:					
Inventories	70,698	-	-	-	70,698
Assigned to:					
Special revenue fund	599,858	2,006,396	342,870	1,623,633	4,572,757
Total fund balances	<u>670,556</u>	<u>2,006,396</u>	<u>342,870</u>	<u>1,623,633</u>	<u>4,643,455</u>
Total liabilities and fund balances	<u>\$ 694,861</u>	<u>\$ 2,043,271</u>	<u>\$ 342,870</u>	<u>\$ 1,671,362</u>	<u>\$ 4,752,364</u>

CITY OF FLORENCE, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For The Year Ended June 30, 2013

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Municipal Aid	Infrastructure	Asset Forfeiture	Aquatic Center	
REVENUES					
Licenses and permits	\$ -	\$ 2,248,077	\$ -	\$ -	\$ 2,248,077
Intergovernmental	601,780	25,000	-	-	626,780
Charges for services	-	450,000	-	309,513	759,513
Uses of property	-	-	116,425	-	116,425
Interest	1,987	3,593	865	5,218	11,663
Miscellaneous	-	-	-	352	352
Total revenues	603,767	2,726,670	117,290	315,083	3,762,810
EXPENDITURES					
Current:					
Police	-	-	24,845	-	24,845
Public Services	634,720	1,720,274	-	564,964	2,919,958
Total expenditures	634,720	1,720,274	24,845	564,964	2,944,803
Excess (deficiency) of revenues over(under) expenditures	(30,953)	1,006,396	92,445	(249,881)	818,007
OTHER FINANCING SOURCES					
Transfers in	125,000	1,000,000	-	200,000	1,325,000
Total other financing sources	125,000	1,000,000	-	200,000	1,325,000
Net change in fund balances	94,047	2,006,396	92,445	(49,881)	2,143,007
Fund balances - beginning	576,509	-	250,425	1,673,514	2,500,448
Fund balances - ending	\$ 670,556	\$ 2,006,396	\$ 342,870	\$ 1,623,633	\$ 4,643,455

CITY OF FLORENCE, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE-BUDGET AND ACTUAL-MUNICIPAL AID FUND
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Budgetary fund balances, July 1	\$ 341,931	\$ 576,509	\$ 576,509	\$ -
Resources (inflows):				
Intergovernmental	535,000	535,000	601,780	66,780
Interest	2,700	2,700	1,987	(713)
Other financing sources:				
Transfer in	125,000	125,000	125,000	-
Amounts available for appropriation	1,004,631	1,239,209	1,305,276	66,067
Charges to appropriations (outflows):				
Current:				
Public services	645,200	645,200	634,720	10,480
Total	645,200	645,200	634,720	10,480
Budgetary fund balances, June 30	\$ 359,431	\$ 594,009	\$ 670,556	\$ 76,547

CITY OF FLORENCE, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE-BUDGET AND ACTUAL-INFRASTRUCTURE FUND
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Budgetary fund balances, July 1	\$ -	\$ -	\$ -	\$ -
Resources (inflows):				
Licenses and permits	2,100,000	2,100,000	2,248,077	148,077
Intergovernmental	25,000	25,000	25,000	-
Charges for services	450,000	450,000	450,000	-
Interest	4,000	4,000	3,593	(407)
Transfer in	-	-	1,000,000	1,000,000
Amounts available for appropriation	<u>2,579,000</u>	<u>2,579,000</u>	<u>3,726,670</u>	<u>1,147,670</u>
Charges to appropriations (outflows):				
Current:				
Public services	<u>1,525,000</u>	<u>1,730,000</u>	<u>1,720,274</u>	<u>9,726</u>
Total	<u>1,525,000</u>	<u>1,730,000</u>	<u>1,720,274</u>	<u>9,726</u>
Budgetary fund balances, June 30	\$ <u><u>1,054,000</u></u>	\$ <u><u>849,000</u></u>	\$ <u><u>2,006,396</u></u>	\$ <u><u>1,157,396</u></u>

CITY OF FLORENCE, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE-BUDGET AND ACTUAL-ASSET FORFEITURE FUND
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Budgetary fund balances, July 1	\$ 231,618	\$ 250,425	\$ 250,425	\$ -
Resources (inflows):				
Uses of property	25,000	25,000	116,425	91,425
Interest	1,400	1,400	865	(535)
Amounts available for appropriation	<u>258,018</u>	<u>276,825</u>	<u>367,715</u>	<u>90,890</u>
Charges to appropriations (outflows):				
Current:				
Police	<u>60,790</u>	<u>60,790</u>	<u>24,845</u>	<u>35,945</u>
Total	<u>60,790</u>	<u>60,790</u>	<u>24,845</u>	<u>35,945</u>
Budgetary fund balances, June 30	<u>\$ 197,228</u>	<u>\$ 216,035</u>	<u>\$ 342,870</u>	<u>\$ 126,835</u>

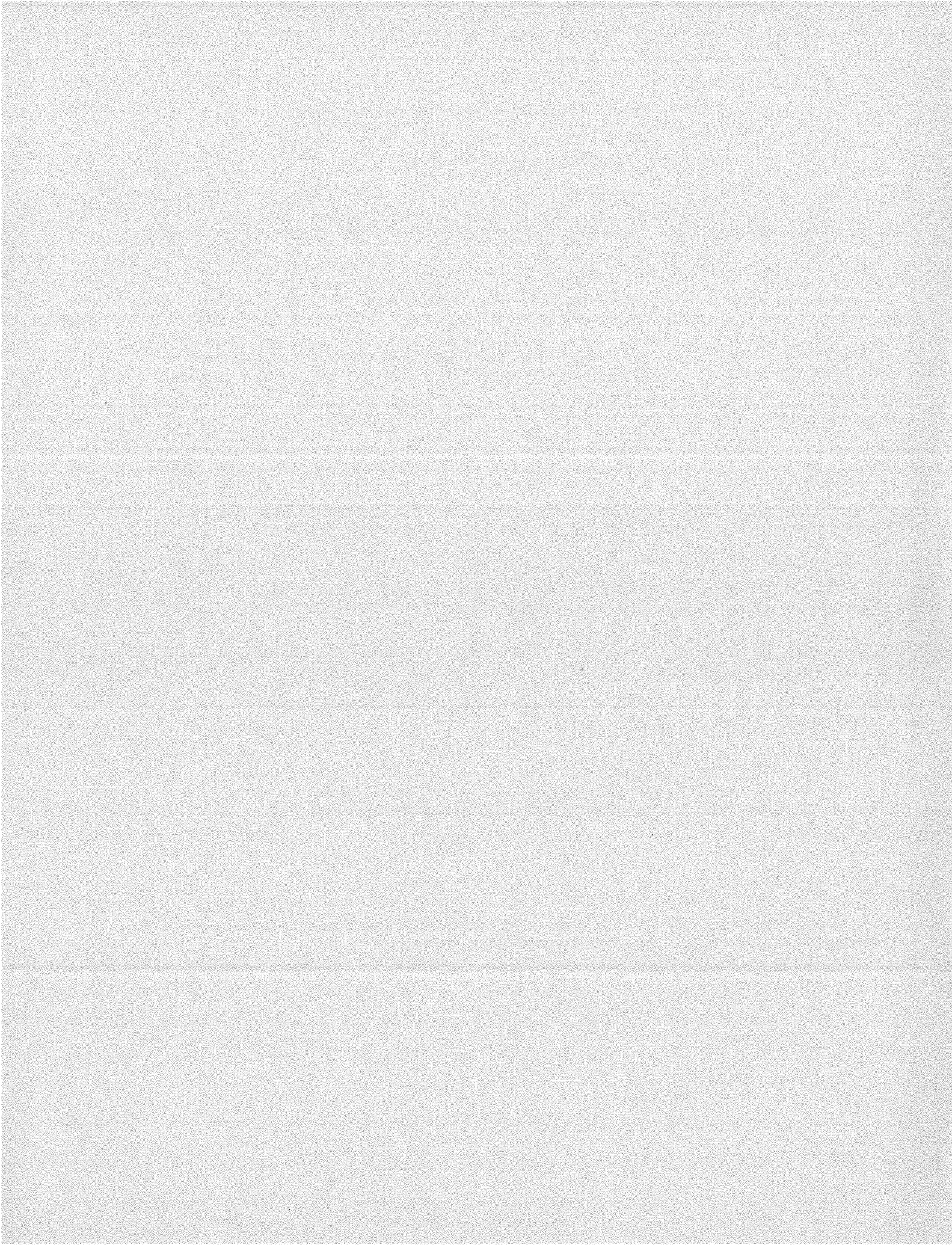
CITY OF FLORENCE, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE-BUDGET AND ACTUAL-AQUATIC CENTER FUND
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Budgetary fund balances, July 1	\$ 1,115,675	\$ 1,673,514	\$ 1,673,514	\$ -
Resources (inflows):				
Memberships	55,000	55,000	52,410	(2,590)
Daily Admissions	250,000	250,000	225,301	(24,699)
Programs	16,000	16,000	20,927	4,927
Concessions	15,000	15,000	9,989	(5,011)
Locker Rental	1,000	1,000	886	(114)
Interest	7,500	7,500	5,218	(2,282)
Miscellaneous	500	500	352	(148)
Other financing sources:				
Transfer in	200,000	200,000	200,000	-
Amounts available for appropriation	<u>1,660,675</u>	<u>2,218,514</u>	<u>2,188,597</u>	<u>(29,917)</u>
Charges to appropriations (outflows):				
Public services				
Management contract	375,000	375,000	370,000	5,000
Utilities	168,700	168,700	116,915	51,785
Repairs and maintenance	40,000	40,000	30,622	9,378
Supplies	1,000	1,000	1,131	(131)
Bank service charges	6,500	6,500	4,850	1,650
Miscellaneous	4,250	4,250	3,535	715
Capital	50,000	50,000	37,911	12,089
Total	<u>645,450</u>	<u>645,450</u>	<u>564,964</u>	<u>80,486</u>
Budgetary fund balances, June 30	<u>\$ 1,015,225</u>	<u>\$ 1,573,064</u>	<u>\$ 1,623,633</u>	<u>\$ 50,569</u>

STATISTICAL SECTION

This part of the City of Florence's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the government's overall financial health.

CONTENTS	PAGE
Financial Trends These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.	61
Revenue Capacity These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	68
Debt Capacity These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.	73
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.	78
Operating Information These schedules contain certain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.	80



CITY OF FLORENCE, KENTUCKY

Net Position by Component
Last Ten Fiscal Years
 (accrual basis of accounting)
 (amounts expressed in thousands)

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
GOVERNMENTAL ACTIVITIES										
Invested in capital assets, net of related debt	\$ 12,118	\$ 69,125	\$ 69,947	\$ 69,825	\$ 69,163	\$ 48,629	\$ 47,198	\$ 53,100	\$ 59,316	\$ 59,736
Restricted										
Unrestricted	10,434	13,218	15,061	18,543	28,011	35,364	42,903	46,679	53,466	63,305
Total governmental activities net assets	\$ 22,552	\$ 82,343	\$ 85,008	\$ 88,368	\$ 97,174	\$ 83,993	\$ 90,101	\$ 99,779	\$ 112,782	\$ 123,041
BUSINESS-TYPE ACTIVITIES										
Invested in capital assets, net of related debt	17,542	18,613	18,711	19,096	19,508	19,651	22,638	26,175	26,659	26,695
Restricted	261	265	463	266	469	473	265	479	248	248
Unrestricted	6,408	5,548	5,713	5,860	5,387	5,684	5,900	6,995	7,279	8,050
Total business-type activities net assets	\$ 24,211	\$ 24,426	\$ 24,887	\$ 25,222	\$ 25,364	\$ 25,808	\$ 28,803	\$ 33,649	\$ 34,186	\$ 34,993
PRIMARY GOVERNMENT										
Invested in capital assets, net of related debt	29,660	87,738	88,658	88,921	88,671	68,280	69,836	79,275	85,975	86,431
Restricted	261	265	463	266	469	473	265	479	248	248
Unrestricted	16,842	18,766	20,774	24,403	33,398	41,048	48,803	53,674	60,745	71,355
Total primary government net assets	\$ 46,763	\$ 106,769	\$ 109,895	\$ 113,590	\$ 122,538	\$ 109,801	\$ 118,904	\$ 133,428	\$ 146,968	\$ 158,034

CITY OF FLORENCE, KENTUCKY

Changes in Net Position

Last Ten Fiscal Years

(accrual basis of accounting)

(amounts expressed in thousands)

Expenses	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Governmental activities:										
Administration	\$ 2,904	\$ 4,204	\$ 3,051	\$ 3,315	\$ 3,150	\$ 3,405	\$ 3,423	\$ 3,249	\$ 3,298	\$ 4,034
Police	5,094	5,211	5,470	5,556	6,338	6,994	6,436	8,944	6,969	7,303
Fire	3,937	3,932	4,619	4,796	5,449	5,559	6,595	5,386	6,431	6,136
Public services	4,150	5,923	6,182	6,907	8,429	8,443	7,572	7,087	8,226	8,316
Parks and recreation	628	645	195	-	-	-	-	-	-	-
Economic development	-	454	353	517	412	908	-	-	-	-
Other agencies	790	791	800	830	813	-	-	-	-	-
Interest on long-term debt	1,303	1,916	1,228	1,133	1,211	1,101	1,089	1,426	1,497	755
Total governmental activities	18,806	23,076	21,898	23,054	25,802	26,410	25,115	26,092	26,421	26,544
Business-type activities:										
Water and sewer service	6,676	6,769	6,825	6,828	7,340	7,214	7,346	7,616	7,727	7,571
Golf course	1,038	1,021	942	855	905	860	784	920	1,303	1,312
Total business-type activities	7,714	7,790	7,767	7,683	8,245	8,074	8,130	8,536	9,030	8,883
Total primary government expense	\$ 26,520	\$ 30,866	\$ 29,665	\$ 30,737	\$ 34,047	\$ 34,484	\$ 33,245	\$ 34,628	\$ 35,451	\$ 35,427
Program Revenues										
Governmental activities:										
Charges for services:										
Administration	\$ 826	\$ 610	\$ 560	\$ 582	\$ 668	\$ 691	\$ 939	\$ 877	\$ 887	\$ 784
Fire	1,697	2,028	2,181	2,344	2,504	2,758	2,586	2,754	2,658	2,791
Public services	44	397	820	834	1,068	1,088	1,065	1,094	1,102	999
Parks and recreation	480	429	-	-	-	-	-	-	-	-
Other activities	73	23	19	20	20	18	17	30	16	10
Operating grants and contributions	481	417	439	473	602	640	808	551	546	2,132
Capital grants and contributions	1,475	591	581	1,332	667	1,890	2,501	6,806	5,027	734
Total governmental activities program revenues	5,076	4,495	4,600	5,585	5,529	7,085	7,916	12,112	10,236	7,450
Business-type activities:										
Charges for services:										
Water and sewer service	6,910	6,751	6,920	6,642	7,120	7,106	7,586	8,084	8,179	8,361
Golf course	1,076	1,007	996	945	850	753	588	709	1,250	1,206
Capital grants and contributions	-	-	-	50	80	-	-	-	-	-
Total business-type activities program revenues	7,986	7,758	7,916	7,637	8,050	7,859	8,174	8,793	9,429	9,567
Total primary government program revenues	\$ 13,062	\$ 12,253	\$ 12,516	\$ 13,222	\$ 13,579	\$ 14,944	\$ 16,090	\$ 20,905	\$ 19,665	\$ 17,017
Net (expense)/revenue	\$ (13,730)	\$ (18,581)	\$ (17,298)	\$ (17,469)	\$ (20,273)	\$ (19,325)	\$ (17,199)	\$ (13,980)	\$ (16,185)	\$ (19,094)
Governmental activities:										
Business-type activities:	272	(32)	149	(46)	(195)	(215)	44	257	399	684
Total primary government, net expense	\$ (13,458)	\$ (18,613)	\$ (17,149)	\$ (17,515)	\$ (20,468)	\$ (19,540)	\$ (17,155)	\$ (13,723)	\$ (15,786)	\$ (18,410)

(continued)

CITY OF FLORENCE, KENTUCKY

Changes in Net Position

Last Ten Fiscal Years

(accrual basis of accounting)
(amounts expressed in thousands)

(continued)

General Revenues and Other Changes in Net Asset

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Governmental activities:										
Taxes:										
Property taxes, levied for										
general purposes	\$ 4,960	\$ 4,961	\$ 6,003	\$ 6,085	\$ 7,057	\$ 7,258	\$ 7,341	\$ 7,194	\$ 7,197	\$ 6,999
Public service taxes	483	502	614	515	562	544	579	555	521	521
Taxes, levied for bank deposits	113	140	141	170	181	184	211	207	194	183
Payroll license	7,242	7,594	7,748	7,931	13,114	13,115	13,373	14,077	14,912	14,872
Gross receipts license	1,888	1,880	1,766	1,749	2,183	1,944	2,048	1,964	2,158	2,235
Insurance premium	2,811	2,970	2,683	2,897	4,150	4,050	3,659	3,579	3,751	4,098
Other	83	121	104	97	106	103	97	101	105	126
Grants and contributions not restricted to program	28	-	-	-	-	-	-	-	-	-
Uses of property	55	112	110	218	176	373	45	89	40	116
Interest	122	289	564	922	868	531	351	292	291	177
Miscellaneous	2,333	1,657	330	310	227	4,331	132	144	120	125
Transfers	(100)	(119)	(100)	(65)	454	(500)	(4,529)	(4,545)	(100)	(100)
Total governmental activities	20,018	20,107	19,963	20,829	29,078	31,933	23,307	23,657	29,189	29,352
Business-type activities										
Investment earnings	70	128	212	316	249	122	48	54	38	22
Capital contributions	-	-	-	-	-	-	1,773	3,745	-	-
Transfers	100	119	100	65	125	500	1,129	789	100	100
Total business-type activities	170	247	312	381	374	622	2,950	4,588	138	122
Total primary government	20,188	20,354	20,275	21,210	29,452	32,555	26,257	28,245	29,327	29,474
Change in net assets										
Governmental activities	\$ 6,288	\$ 1,526	\$ 2,665	\$ 3,360	\$ 8,805	\$ 12,608	\$ 6,108	\$ 9,677	\$ 13,004	\$ 10,258
Business-type activities	442	215	461	335	179	407	2,994	4,845	537	806
Total primary government	\$ 6,730	\$ 1,741	\$ 3,126	\$ 3,695	\$ 8,984	\$ 13,015	\$ 9,102	\$ 14,522	\$ 13,541	\$ 11,064

CITY OF FLORENCE, KENTUCKY
Governmental Activities Tax Revenues By Source
 Last Ten Fiscal Years
 (accrual basis of accounting)

Fiscal Year	Property Tax	Franchise Tax	Bank Deposit Tax	Payroll License Tax	Gross Receipts Tax	Insurance Premium Tax
2004	\$ 4,959,912	\$ 482,696	\$ 112,616	\$ 7,242,431	\$ 1,888,439	\$ 2,811,348
2005	4,961,142	502,243	139,615	7,594,271	1,879,672	2,969,919
2006	6,002,673	613,920	140,671	7,748,070	1,765,618	2,683,571
2007	6,085,225	514,693	170,188	7,931,480	1,749,035	2,897,067
2008	7,057,274	561,658	180,793	13,114,397	2,182,703	4,150,090
2009	7,258,039	543,546	184,469	13,114,839	1,944,202	4,050,644
2010	7,357,458	578,970	211,568	13,373,239	2,047,911	3,658,788
2011	7,222,802	554,987	206,908	14,077,419	1,963,691	3,578,837
2012	6,980,878	521,460	193,658	14,912,330	2,157,586	3,751,078
2013	7,003,025	520,742	183,325	14,871,599	2,235,304	4,098,924

CITY OF FLORENCE, KENTUCKY
Fund balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
GENERAL FUND										
Reserved	\$ 484	\$ 418	\$ 521	\$ 496	\$ 551	\$ 434	\$ -	\$ -	\$ -	\$ -
Unreserved	5,359	6,709	7,728	8,127	15,802	19,235	-	-	-	-
Nonspendable	-	-	-	-	-	-	395	254	483	490
Committed to	-	-	-	-	-	-	5,500	6,500	7,000	7,000
Assigned to	-	-	-	-	-	-	8,505	6,440	3,290	3,590
Unassigned	-	-	-	-	-	-	17,506	21,743	29,320	34,929
Total general fund	\$ 5,843	\$ 7,127	\$ 8,249	\$ 8,623	\$ 16,353	\$ 19,669	\$ 31,906	\$ 34,937	\$ 40,093	\$ 46,009
ALL OTHER GOVERNMENTAL FUNDS										
Reserved	\$ -	\$ 43	\$ 55	\$ 57	\$ 46	\$ 101	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	2,194	1,172	1,351	6,750	7,531	10,486	-	-	-	-
Capital projects funds	2,492	3,028	3,398	-	-	-	-	-	-	-
Nonspendable	-	-	-	-	-	-	63	63	68	71
Restricted	-	-	-	-	-	-	266	413	508	599
Assigned to	-	-	-	-	-	-	1,593	1,461	1,924	3,973
Total all other governmental funds	\$ 4,686	\$ 4,243	\$ 4,804	\$ 6,807	\$ 7,577	\$ 10,587	\$ 1,922	\$ 1,937	\$ 2,500	\$ 4,643

CITY OF FLORENCE, KENTUCKY

Changes in Fund Balances of Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
REVENUES										
Taxes	\$ 5,352	\$ 5,553	\$ 6,571	\$ 6,997	\$ 7,817	\$ 7,927	\$ 8,148	\$ 7,985	\$ 7,696	\$ 7,707
Licenses and permits	12,025	12,565	12,301	12,675	19,553	19,212	19,177	19,721	20,926	21,332
Intergovernmental	1,792	1,008	1,020	1,805	1,269	2,530	3,308	7,357	5,573	2,866
Fines and forfeitures	166	143	134	157	241	219	278	253	264	247
Charges for services	2,778	3,344	3,425	3,623	4,020	4,336	4,329	4,503	4,399	4,363
Uses of property	247	112	110	218	176	373	45	89	40	116
Interest	122	271	496	748	708	458	351	292	229	177
Miscellaneous	2,333	1,657	410	475	136	109	132	144	120	85
Total revenues	24,815	24,653	24,467	26,698	33,920	35,164	35,768	40,344	39,247	36,893
EXPENDITURES										
Current:										
Administration	2,275	3,737	2,534	2,578	2,438	2,377	2,532	2,052	2,606	2,630
Police	4,893	5,394	5,708	6,073	6,595	7,289	7,326	7,166	7,125	7,506
Fire	3,830	4,425	4,893	5,638	5,464	5,615	6,915	5,725	6,242	6,042
Public services	3,836	5,016	5,697	6,517	7,533	8,200	8,781	15,749	15,073	9,844
Parks and recreation	603	865	292	-	-	-	-	-	-	-
Economic development	-	796	354	518	412	2,539	-	-	-	-
Other agencies	790	791	800	830	812	-	-	-	-	-
Capital outlay	10,303	302	58	-	-	-	-	-	-	-
Debt service:										
Principal	873	1,112	1,096	1,259	1,401	1,224	1,055	1,230	1,195	1,000
Interest	1,340	2,135	1,253	1,202	1,289	1,094	1,057	1,398	1,263	711
Cost of issuance	-	-	-	-	-	-	-	74	114	-
Total expenditures	28,743	24,573	22,685	24,615	25,944	28,338	27,666	33,394	33,618	27,733
Excess(deficiency) of revenues over(under) expenditures	(3,928)	80	1,782	2,083	7,976	6,826	8,102	6,950	5,629	9,160

(continued)

CITY OF FLORENCE, KENTUCKY
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years

(modified accrual basis of accounting)
(amounts expressed in thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
OTHER FINANCING SOURCES(USES)										
Refunding bonds issued	7,085	9,070	-	-	2,255	-	-	6,720	5,640	-
Lease proceeds	700	-	-	360	-	-	-	-	-	-
Bond discount	-	-	-	-	-	-	-	-	(93)	-
Payment to refunded bond escrow agent	-	(8,190)	-	-	(2,185)	-	-	(6,080)	(5,020)	-
Transfers in	5,454	4,356	5,123	10,010	6,859	9,675	9,023	325	988	1,325
Transfers out	(5,554)	(4,475)	(5,223)	(10,075)	(6,405)	(10,175)	(13,552)	(4,870)	(1,425)	(2,425)
Total other financing sources and uses	7,685	761	(100)	295	524	(500)	(4,529)	(3,905)	90	(1,100)
Net change in fund balances	<u>\$ 3,757</u>	<u>\$ 841</u>	<u>\$ 1,682</u>	<u>\$ 2,378</u>	<u>\$ 8,500</u>	<u>\$ 6,326</u>	<u>\$ 3,573</u>	<u>\$ 3,045</u>	<u>\$ 5,719</u>	<u>\$ 8,060</u>
Debt service as a percentage of noncapital expenditures	<u>12.00%</u>	<u>15.00%</u>	<u>11.90%</u>	<u>12.95%</u>	<u>12.74%</u>	<u>15.47%</u>	<u>10.37%</u>	<u>11.40%</u>	<u>11.40%</u>	<u>7.28%</u>

(continued)

CITY OF FLORENCE, KENTUCKY

Governmental Activities Tax Revenues By Source

Last Ten Fiscal Years

(modified accrual basis of accounting)
(amounts expressed in thousands)

(continued)

<u>Fiscal Year</u>	<u>Property Tax</u>		<u>Franchise Tax</u>		<u>Bank Deposit Tax</u>		<u>Total</u>
2004	\$	4,960	\$	483	\$	113	\$ 5,556
2005		4,961		502		140	5,603
2006		5,817		614		141	6,572
2007		6,312		515		170	6,997
2008		7,074		562		181	7,817
2009		7,199		543		184	7,926
2010		7,357		579		211	8,147
2011		7,223		555		207	7,985
2012		6,981		521		193	7,695
2013		7,003		521		183	7,707

CITY OF FLORENCE, KENTUCKY

Assessed Value of Taxable Property

Last Ten Fiscal Years

Fiscal Year	Real Property			Less: Tax-Exempt Real Property	Total Taxable Assessed Value	Total Direct Tax Rate
	Residential Property	Commercial Property	Personal Property			
2004	\$ 675,126,725	\$ 999,437,572	\$ 208,379,552	\$ 35,028,000	\$ 1,847,915,849	2.25
2005	731,789,280	1,070,193,910	250,457,191	35,700,000	2,016,740,381	2.24
2006	801,001,216	1,131,885,454	215,743,147	36,092,000	2,112,537,817	2.38
2007	873,986,533	1,208,132,976	246,316,002	42,012,600	2,286,422,911	2.46
2008	933,390,668	1,384,907,492	320,548,655	48,732,800	2,590,114,015	2.53
2009	994,782,905	1,429,745,754	333,536,812	54,133,600	2,703,931,871	2.46
2010	1,010,120,162	1,425,270,095	307,487,386	59,446,800	2,683,430,843	2.46
2011	1,023,395,608	1,396,265,937	279,984,247	62,715,700	2,636,930,092	2.46
2012	1,028,965,182	1,354,470,062	318,225,739	64,668,000	2,636,992,983	2.46
2013	1,142,856,422	1,292,878,730	303,628,112	67,354,000	2,672,009,264	2.46

CITY OF FLORENCE, KENTUCKY

Property Tax Rates (1)

Direct and Overlapping (2) Governments

Last Ten Fiscal Years

Fiscal Year	Direct Rates		Overlapping Rates					Total Direct and Overlapping Rates
	City of Florence		County					
	Florence	Hazardous	Boone County	Extension Services	Health	Library		
2004	\$ 1.800	\$ 0.450	\$ 0.950	\$ 0.170	\$ 0.200	\$ 0.720	\$ 4.290	
2005	1.790	0.450	0.950	0.170	0.200	0.870	4.430	
2006	1.790	0.590	0.950	0.180	0.200	0.720	4.430	
2007	1.800	0.660	0.990	0.190	0.200	0.720	4.560	
2008	1.730	0.800	0.990	0.190	0.200	0.680	4.590	
2009	1.820	0.640	1.020	0.160	0.190	0.500	4.330	
2010	1.820	0.640	1.020	0.160	0.190	0.500	4.330	
2011	1.820	0.640	1.020	0.160	0.190	0.500	4.330	
2012	1.820	0.640	1.040	0.160	0.190	0.510	4.360	
2013	1.820	0.640	1.050	0.180	0.190	0.520	4.400	

(1) Per \$1000 assessed valuation

(2) Overlapping rates are those of the county government that apply to property owners living in the City of Florence.

CITY OF FLORENCE, KENTUCKY

Principal Property Taxpayers

June 30, 2013

Taxpayer	2013			2004		
	Taxable Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value
General Growth	\$ 96,000,000	1	3.59%	\$ 76,000,000	1	33.91%
New Plan Property Holding	37,225,135	2	1.39%			
Turfway Park, LLC	21,900,000	3	0.82%			
Cabot Turfway Ridge 14 LLC	21,500,000	4	0.80%	14,000,000	7	6.25%
Trellises Kentucky	18,060,000	5	0.68%	15,802,500	4	7.05%
Wal-Mart Real Estate	18,000,000	6	0.67%	15,800,000	5	7.05%
Meijer Stores	17,196,000	7	0.64%			
Cayton Development	14,851,840	8	0.55%	12,499,000	8	5.58%
Beam Associates	13,511,880	9	0.51%			
Columns Appratment Complex	13,300,000	10	0.49%			
Ayres Development				35,477,100	2	15.83%
Corporex Key Partnership				15,912,000	3	7.10%
Turfway Crossing				15,000,000	6	6.69%
Shelbyville Inc.				12,000,000	9	5.35%
HK New Plans				11,612,000	10	5.18%
TOTAL	\$ <u>271,544,855</u>		<u>10.14%</u>	\$ <u>224,102,600</u>		<u>40.15%</u>

CITY OF FLORENCE, KENTUCKY
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy	Current Tax Collections	Discounts	Percent of Current Taxes Collected	Collections in Subsequent Years	Total Collections to Date	
						Amount	Percentage of Collection
2004	\$ 4,657,551	\$ 4,615,257	\$ -	99%	\$ -	\$ 4,615,257	99%
2005	\$ 5,009,338	\$ 4,991,729	\$ -	97%	\$ -	\$ 4,991,729	100%
2006	\$ 5,563,550	\$ 5,452,279	\$ -	97%	\$ -	\$ 5,452,279	98%
2007	\$ 6,354,149	\$ 6,182,681	(102,692)	98%	170,495	\$ 6,353,176	100%
2008	\$ 7,246,063	\$ 7,125,485	(117,326)	99%	115,590	\$ 7,241,075	100%
2009	\$ 7,463,379	\$ 7,280,815	(117,795)	99%	147,295	\$ 7,428,110	100%
2010	\$ 7,401,426	\$ 7,209,530	(125,730)	99%	185,723	\$ 7,395,253	100%
2011	\$ 7,244,508	\$ 7,193,319	(125,186)	99%	35,275	\$ 7,228,594	100%
2012	\$ 7,190,106	\$ 7,015,187	(115,734)	99%	160,567	\$ 7,175,754	100%
2013	\$ 7,094,090	\$ 7,042,131	(121,914)	99%	-	\$ 7,042,131	99%

CITY OF FLORENCE, KENTUCKY

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years

Fiscal Year	Governmental Type Activities				Business-Type Activities						Total	
	General		Public		Sewer Bonds	Water Bonds	Properties/GO Bonds	Capital Leases	Capital Leases	Debt per Population	Primary Government	Debt per Population
	Obligations	Bonds	Properties	Bonds								
2004	\$ 16,500,000	\$	11,190,000	\$	-	\$ 3,670,000	\$ 3,660,000	2	\$ 12,588	\$	36,120,246	\$ 1,456
2005	\$ 24,910,000	\$	2,740,000	\$	-	\$ 3,535,000	\$ 3,450,000	2	\$ 36,804	\$	35,567,276	\$ 1,397
2006	\$ 24,280,000	\$	2,470,000	\$	-	\$ 3,395,000	\$ 3,230,000	2	\$ 83,270	\$	34,157,242	\$ 1,304
2007	\$ 23,640,000	\$	2,185,000	\$	-	\$ 3,255,000	\$ 3,000,000	2	\$ 63,063	\$	32,867,663	\$ 1,230
2008	\$ 25,000,000	\$	-	\$	-	\$ 3,110,000	\$ 2,885,000	2	\$ 41,791	\$	31,255,423	\$ 1,145
2009	\$ 23,995,000	\$	-	\$	-	\$ 2,960,000	\$ 2,580,000	2	\$ 24,534	\$	29,559,534	\$ 1,065
2010	\$ 22,940,000	\$	-	\$	-	\$ 2,805,000	\$ 2,300,000	2	\$ -	\$	28,045,000	\$ 988
2011	\$ 22,350,000	\$	-	\$	-	\$ 2,645,000	\$ 2,010,000	2	\$ -	\$	27,005,000	\$ 902
2012	\$ 21,775,000	\$	-	\$	-	\$ 2,640,000	\$ 1,705,000	2	\$ -	\$	26,120,000	\$ 846
2013	\$ 20,775,000	\$	-	\$	-	\$ 2,430,000	\$ 1,395,000	2	\$ -	\$	24,600,000	\$ 791

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

(1) See the Schedule of Demographic and Economic Statistics on page 78 for personal income and population data.

(2) Public Properties Bonds

CITY OF FLORENCE, KENTUCKY
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years

Fiscal Year	General Obligations Bonds	Less: Amounts Available in Debt Service Fund	Total	Percentage of Actual Taxable Value(1) of Property	Per Capita (2)
2004	\$ 16,500,000	\$ -	\$ 16,500,000	0.89%	665
2005	\$ 24,910,000	\$ -	\$ 24,910,000	1.23%	979
2006	\$ 24,280,000	\$ -	\$ 24,280,000	1.15%	927
2007	\$ 23,640,000	\$ -	\$ 23,640,000	1.15%	885
2008	\$ 25,000,000	\$ -	\$ 25,000,000	0.96%	916
2009	\$ 26,575,000	\$ -	\$ 26,575,000	0.98%	958
2010	\$ 25,240,000	\$ -	\$ 25,240,000	0.94%	889
2011	\$ 24,360,000	\$ -	\$ 24,360,000	0.92%	813
2012	\$ 23,480,000	\$ -	\$ 23,480,000	0.89%	765
2013	\$ 22,170,000	\$ -	\$ 22,170,000	0.83%	713

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

(1) See the Schedule of Assessed Value of Taxable Property on page 69 for property value data.

(2) Population data can be found in the Schedule of Demographic and Economic Statistics on Page 78.

CITY OF FLORENCE, KENTUCKY

Direct and Overlapping Governmental Activities Debt

June 30, 2013

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable(1)</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes: County	\$ 49,765,276	26.40%	\$ 12,884,664
Subtotal, overlapping debt			12,884,664
City of Florence direct debt			20,775,000
Total direct and overlapping			\$ 33,659,664

Source: Kentucky Local Debt Report

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Florence. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

(1) The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the county's taxable assessed value that is within the government's boundaries and dividing it by the county's total taxable assessed value.

CITY OF FLORENCE, KENTUCKY

Legal Debt Margin Information

Last Ten Fiscal Years

(amounts expressed in thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Debt limit	\$ 192,843	\$ 212,859	\$ 215,163	\$ 228,642	\$ 259,011	\$ 270,393	\$ 268,343	\$ 263,693	\$ 263,699	\$ 267,201
Total net debt applicable to limit	16,500	24,910	24,280	23,640	25,000	26,575	25,240	24,360	23,480	22,170
Legal debt margin	176,343	187,949	190,253	205,002	234,011	243,818	243,103	239,333	240,219	245,031
Total net debt applicable to the limit as a percentage of debt limit	8.56%	11.70%	11.28%	10.34%	9.65%	9.83%	9.41%	9.24%	8.90%	8.30%

Legal Debt Margin Calculation for Fiscal Year 2013

Taxable assessed value	\$ 2,672,009
Debt limit(10% for total taxable assessed value)	267,201
Debt applicable to limit:	
General obligation bonds	22,170
Less: amount set aside for repayment general obligation debt	-
Total net debt applicable to limit	22,170
Legal debt margin	\$ 245,031

Note: Under state finance law, the City of Florence's outstanding debt should not exceed 10 percent of assessed property value. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

CITY OF FLORENCE, KENTUCKY
Pledged-Revenue Coverage
Last Ten Fiscal Years

Fiscal Year	Sewer and Water Revenue Bonds						Coverage
	Sewer/Water Charges and Other	Less: Operating Expenses	Net		Debt Service		
			Available Revenue		Principal	Interest	
2004	\$ 5,963,020	\$ 5,595,307	\$ 367,713	\$ 615,000	¹ \$ 45,816	56%	
2005	6,122,206	5,668,050	454,156	135,000	118,580	179%	
2006	6,294,875	5,687,170	607,705	140,000	119,648	234%	
2007	6,440,730	5,694,721	746,009	140,000	116,147	291%	
2008	7,120,380	6,088,773	1,031,607	150,000	112,585	393%	
2009	7,106,429	5,915,803	1,190,626	150,000	108,898	460%	
2010	7,586,055	7,227,255	358,800	155,000	103,029	139%	
2011	8,083,907	7,502,580	581,327	160,000	101,943	222%	
2012	8,179,081	7,635,066	544,015	165,000	96,112	208%	
2013	8,361,515	7,493,012	868,503	210,000	38,499	349%	

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements. Sewer and water charges and other includes investment earnings but not tap fees. Operating expenses do not include interest or depreciation.

¹ Sewer bonds were defeased and water bonds were issued. Principal payments were made on both issues this year.

CITY OF FLORENCE, KENTUCKY

Demographic and Economic Statistics

Last Ten Fiscal Years

Fiscal Year	Population (1)	Personal Income	Per Capita Median Income (2)	Median Age (2)	Unemployment Rate (3)
2004	24,801	\$ 883,163,610	\$ 35,610	32.9	4.2%
2005	25,443	\$ 933,732,657	\$ 36,699	34.7	4.6%
2006	26,188	\$ 1,034,033,180	\$ 39,485	33.1	4.0%
2007	26,710	\$ 1,053,762,920	\$ 39,452	33.1	4.5%
2008	27,281	\$ 1,122,558,588	\$ 41,148	34.1	5.4%
2009	27,745	\$ 1,183,712,680	\$ 42,664	34.2	9.7%
2010	28,381	\$ 1,374,860,783	\$ 48,443	34.9	9.7%
2011	29,951	\$ 1,474,907,044	\$ 49,244	35.7	9.1%
2012	30,687	N/A	N/A	N/A	7.1%
2013	31,088	N/A	N/A	N/A	6.9%

(1) Census Bureau and Kentucky State Data Center

(2) Tri-County Economic Development Corporation

(3) Bureau of Labor Statistics Data and Kentucky State Data Center

CITY OF FLORENCE, KENTUCKY

Principal Employers

Current Year and Nine Years Ago

<u>Taxpayer</u>	2013			2004		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Boone County Board of Education	2,400	1	19.50%	N/A	1	0.00%
Schwan's Food Mfg.	1,100	2	8.94%	N/A	2	0.00%
St. Elizabeth Hospital	1,050	3	8.54%	N/A	3	0.00%
ZF Groups of Companies	682	4	5.54%	N/A	4	0.00%
ArvinMeritor, Inc.	490	5	3.98%	N/A	5	0.00%
Staples Direct	400	6	3.25%	N/A	6	0.00%
KECO Industries	360	7	2.93%	N/A	7	0.00%
Mubea	300	8	2.44%	N/A	8	0.00%
Loreal	300	9	2.44%	N/A	9	0.00%
City of Florence	200	10	1.63%	N/A	10	0.00%
TOTAL	7,282		51.38%			-

Source: Tri-County Economic Development Corporation

Note: Information not available for all ten years due to the City not adopting GASB 34 until FY 2004.

CITY OF FLORENCE, KENTUCKY

Full-time Equivalent Government Employees by Function Last Ten Fiscal Years

Function	Full-time Equivalent Employees as of June 30									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Administration:										
Mayor's office	3	3	4	4	4	4	4	4	4	4
Finance	10	10	10	9	10	10	10	10	10	10
Human resources	3	3	2	2	N/A	N/A	N/A	N/A	N/A	N/A
Information technology	2	2	3	3	4	N/A	N/A	N/A	N/A	N/A
Public services:										
Professional	17	18	19	19	19	19	19	19	19	19
Maintenance	20	21	19	21	21	21	21	21	21	21
Police:										
Sworn	53	53	54	58	61	61	61	61	61	61
Civilian	4	4	4	4	4	4	4	4	4	4
Fire:										
Sworn	38	38	50	50	51	51	51	51	51	51
Civilian	1	1	1	1	1	1	1	1	1	1
Parks and recreation:	1	1	1	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Water and sewer administration	2	2	2	2	2	2	2	2	2	2
Water	11	11	11	11	11	11	11	11	11	11
Sewer	12	12	12	12	12	12	12	12	12	12

Source: Finance department.

CITY OF FLORENCE, KENTUCKY

Operating Indicators by Function

Last Ten Fiscal Years

Function	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Police:										
Physical arrests	1,030	1,053	1,699	1,569	2,213	1,870	2,617	2,431	2,542	2,571
Traffic violations	4,209	6,163	6,304	6,204	11,471	7,770	6,729	6,385	4,664	4,487
Parking violations	85	438	341	352	450	391	307	513	224	120
Fire:										
Number of calls answered:										
Fire	1,856	2,030	2,186	2,215	2,498	2,641	2,381	2,486	2,367	2,416
Ambulance	3,913	4,177	4,827	5,249	5,682	5,703	5,772	6,091	6,364	6,380
Inspections	864	856	1,928	1,752	1,549	1,657	2,032	2,255	1,945	2,005
Highways and streets:										
Street resurfacing(lane miles)	2.20	2.80	2.60	4.76	5.13	6.60	7.05	7.62	8.44	9.11
Water:										
New connections	213	226	216	135	100	53	45	45	50	42
Water main breaks	50	82	78	38	78	61	24	55	37	62
Average daily consumption (thousands of gallons)	2,767	2,926	2,856	2,909	3,229	2,969	2,839	3,055	3,090	3,035

Source: Various city departments

CITY OF FLORENCE, KENTUCKY
Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	34	34	34	34	34	34	34	34	34	34
Fire:										
Fire stations	3	3	3	3	3	3	3	3	3	3
Highways and streets:										
Streets(miles)	141	143	144	159	159	159	160	168	168	169
Streetsights	1,561	1,582	1,589	1,597	1,134	1,134	1,134	1,977	1,977	2,103
Culture and recreation:										
Parks	9	9	9	9	9	9	9	9	9	9
Parks acreage	163.5	163.5	163.5	163.5	163.5	163.5	163.5	163.5	163.5	163.5
Swimming pools	1	1	1	1	1	1	1	1	1	1
Ball fields	2	2	2	2	2	2	2	2	2	2
Tennis courts	4	4	4	4	4	4	4	4	4	4
Water:										
Water mains	123	124	125	126	132	135	200	145	145	149
Fire hydrants	1,259	1,271	1,289	1,302	1,062	1,122	1,259	1,520	1,520	1,583
Maximum daily capacity (thousands of gallons)	4,095	4,714	4,751	3,944	4,791	4,805	4,000	4,550	4,810	4,809
Sewer:										
Contained sanitary/storm sewers (miles)	257	264	268	271	231	241	278	286	286	278

Source: Various city departments



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

**Honorable Diane E. Whalen, Mayor
Members of City Council
City of Florence, Kentucky**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Florence, Kentucky as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated September 10, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Florence, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Florence, Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Florence, Kentucky's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Florence, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RANKIN, RANKIN & COMPANY

A handwritten signature in cursive script that reads "Rankin, Rankin & Company".

**Ft. Wright, Kentucky
September 10, 2013**

